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List of Abbreviations

£ –	British Pounds
ACC –	Acceding and Candidate Countries
CA –	Collective Agreement
CB –	Collective Bargaining
CEDEFOP –	European Centre for the Development of Vocational Training
CEFC –	State Commission for Continuing Training (Spain)
CES –	Economic and Social Council (Spain)
CFE –	Centre de Formalités des Entreprises
CIT –	Corporate Income Tax
CME –	Coordinated Market Economy
CNT/NAR –	National Labour Council (Belgium)
CVT –	Continuing Vocational Training
CVTS –	Continuing Vocational Training Survey
DGB –	German Confederation of Trade Unions
EC –	European Commission
ECB –	European Central Bank
EEIG –	European Economic Interest Grouping
EIRO –	European Industrial Relations Observatory
ETF –	European Training Foundation
ETUC –	European Trade Union Confederation
EU –	European Union
EUR –	Euro
EUROSTAT –	Statistical Office of the European Communities
FDI –	Foreign Direct Investments
GDP –	Gross Domestic Product
GUS –	Central Statistical Office (Poland)
HRM –	Human Resource Management
HSE –	Health and Safety Executive (UK)
HUF –	Hungarian Forint
IBDF –	International Bureau of Fiscal Documentation
IATA –	International Air Transport Association
ICT –	Information and Communication Technology
ILO –	International Labour Organisation
ISCO –	International Standard Classification of Occupations
IT –	Information Technology
KSH –	Hungarian Central Statistical Office
LFS –	Labour Force Survey
LLP –	Limited Liability Partnership
LME –	Liberal Market Economy

LRS –	Labour Relations System
LSC –	Learning and Skills Council (UK)
LSE –	Large-scale Enterprise
MME –	Mediterranean Market Economy
NACE –	lassification of Economic Activities in the European Community
NMS –	New Member States
NUTS –	Nomenclature of Territorial Units for Statistics
OECD –	Organisation for Economic Co-operation and Development
OÉT –	Országos Érdekegyeztető Tanács (National Council of Reconciliation Interests – Hungary)
Off-JT –	Off-the-Job Training
OJT –	On-the-Job Training
OMS –	Old Member States
PHARE –	Poland and Hungary Assistance for Restructuring of their Economies
PIT –	Personal Income Tax
PLC –	Public Limited Company
PLN –	Polish Zloty
PPS –	Purchasing Power Standard
R&D –	Research and Development
RHSD –	Council for Economic and Social Concertation (Slovakia)
SE –	Societal Effect
SME –	Small and Medium-sized Enterprise
SOC –	Standard Occupational Classification
SZOT –	Szakszervezetek Országos Tanácsa (National Council of Trade Unions - Hungary)
UEAPME –	European Association of Craft, Small and Medium-sized Enterprises
UK –	United Kingdom
UNICE –	Union des Industries de la Communauté européenne
UNIDO –	United Nation Industrial Development Organization
URSSAF –	Union de Recouvrement de Sécurité Sociale et d'Allocations Familiales
US –	United States
USA –	United States of America
USAID –	United States Agency International Development
VAT –	Value Added Tax
VoC –	Varieties of Capitalism

FOREWORD

The aim of the project supported by the Leonardo programme of the European Commission was to develop a research-based international comparative training curriculum about the SME sectors in eight European participant countries: Belgium, France, Germany, Hungary, Poland, Slovakia, Spain and the UK. This Study is the result of the first project phase; an intensive research period in the participant countries.*

The Comparative Research Report starts with presentation of the project design, rationales behind the issues selected for the common work, including an outline of the methodology used in the international project. Part II is devoted to the description of economic profile of the countries and especially SMEs in both European and national level, based on statistical resources. Part III and IV discuss the legal-administrative and financial regulatory frameworks of the business organisation, with special focus on the SMEs. Part IV. is focusing on the social regulatory mechanisms of the firms using the example of the labour relations system. The last part of the report is provides a systematic description of the knowledge development and use practice in an international perspective. In addition, the Part V. is giving a brief analysis and evaluation of the forms of innovation taken place in the SMEs. The tentative experiences and patterns identified in the various parts and chapters of this report are summarized as follows.

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SUMMARY – CONCLUDING CONSIDERATIONS

Part I

1. Combination of various approaches used in the international comparative research.

2. This orientation was carried out on the guiding principle of the "methodological equilibrium" (simultaneous application of both quantitative and qualitative research tolls).

The **Part I.** provides an overview on the purpose of the Leonardo project, on the theoretical foundations of the investigation, including methodology and the research tools adopted by the eight countries participating in the international research consortium.

After presenting the statistical evidences on the decisive role of the SMEs in the European economy (e.g. their share in the business organisation, employment generation capacity etc.) target groups of the e-learning contents were identified (e.g. future and present owners/mangers in this sector). In selecting the project participant countries, designers of the international comparative research used the so-called "Varieties of Capitalism" (VoC) approach which is based on the different types of market coordination. Adopting this view, the groups of countries were as follows: Coordinated Market Economies (Belgium, France and Germany), Liberal Market Economy (U.K.), Mediterranean Market Economy (Spain) and the Central European Countries (Hungary, Poland and Slovakia). The authors critically reviewed the mainstream approaches adopted in the practice of the international comparative research (i.e. cross-national, cross cultural and inter-national or "social effect approach"). Finally, a combination of cross-national (functional) and the inter-national comparisons were used during the design and organisation of the data collection. In this methodological perspective the so-called "three stage date analysis" method was employed in order to locate the activities of the SMEs in European, national and sector/local dimensions. Precisely, the European and national level statistical data analysis was completed by an infra-national (i.e. sector and micro) level. These quantitative methods of data collection and analysis was combined with such qualitative research tool such as the sector-focused (i.e. manufacturing, service, ICT) company case studies. The combination of these research methods served to reach a desirable "methodological equilibrium".

During the various international workshops organised with the participation of the consortium members the following issues were selected on the basis of professional consent: position of SMEs both in the EU and in the national economies of project partners, legal and financial regulatory environments, Labour Relations System and the control strategies in the labour process and the practice of knowledge use and development, including the characteristics of the innovations in the SME sector.

Part II

1. There is a significant asymmetry between the countries belonging to the Euro-zone and the NMS in terms of economic weight.

2. Adopting varieties by sector, the SMEs have dominant role in the employment creation and generation.

3. Within the SME sector the micro firms employing less than 10 persons represent the dominant size-category (90%).

4. The OMS substantially outperform the NMS in share of R&D expenditures.

5. However, in the NMS the strongest employment growth has been taken place (2000–2003) in both 'computer-related activities' and 'other business activities' which reflects the growing participation of the NMS in the knowledge economy.

Before locating the SME sector in both European and the national economies survey, the introductory section of the **Part II** describes the profiles of the national economies participating in the Project. In this respect it is worth noting that there is a strong asymmetry between the so-called Euro-zone countries participating in the project and the NMS countries, in terms of economic performance measured in GDP. The former group of the country produces two-third of GDP in the Euro-zone. Contrary to this pattern the role of the NMS in generating employment (9.8%) visibly stronger than their GDP-contribution (3%).

Comparing the weight of various economic activities, we may say that in the EU-15 countries the service sector dominates (over 50%), its share is lower in the NMS (Hungary, 41,5%, Slovakia 38.2% and Poland 36.5%). The rate of manufacturing sector is particularly high in the NMS and Germany. The rate of employment is higher in the EU-15 countries in comparison to the NMS participating in the Leonardo project. Within the EU-15 countries, UK has higher employment rate than the average, Germany is around the average and in the other three countries (Belgium, France and Spain) the employment rate is below the EU-15 average. In the year of the investigation (2004), the rate of unemployment decreased in all countries (in comparison with the period of 1992–2000), with the exception of Germany. The most striking differences in the unemployment rates were registered in the NMS: in Poland and Slovakia the rate of unemployment was two times higher in comparison with Hungary (18.8–18.0 per cent versus 5.9%). Be-

side the unemployment, there is more complex indicator of "social exclusion" called 'at-risk-of-poverty-rate'.[1]

Among the EU-15 countries participating in the project, this indicator was the highest in Spain (19%), UK (17%) and France (15 %) and the lowest in Germany (11%) and Belgium (13%). In the case of the NMS, Hungary has the lowest rate (10%), Poland (15%) and especially Slovakia (21%).

EU-15 countries outperform substantially the NMS both in the share of Research and Development (R&D) expenditure and in the growth rate, too. In this relation, it is necessary to note that for example the ICT related employment is higher in the Nordic and North European countries, Mediterranean countries (e.g. Spain) have intermediary position and the NMS (together with Portugal) have below average position. However, in the NMS the strongest employment growth has been taken place (2000–2003) in both in 'computer and related activities' and 'other business activities'.

Measuring the SMEs performance at European and country level we have to note that the vast majority of firms belong into the category of SMEs. Within the SMEs, the micro firms – employing less than ten persons – represent the dominant size category (by 90%). This SME s provided jobs for 70% of the workforce. In the field of export, their performance is weaker in comparison with the LSE. They serve mainly local or regional markets. Similarly the productivity – including all sectors – is one third to the large-sized enterprises. The patterns of SMEs performance are rather similar in the NMS. However, we have to note that beside the employment generation capacity, in all other fields (e.g. export, productivity, R and D) EU-15 countries outperform the NMS.

Part III–IV

1. There is a lack of legal integration within the enlarged EU (EU-25).

2. The cost and flexibility of the services offered by legal and administrative institutions have become an important factor of competitiveness for SMEs in the recent years (for example Hungarian firms in growing number are registering their activities in Slovakia).

Part III and IV are devoted to the analysis of regulatory environment in which the small and medium sized firms are operating. In relation with the regulatory

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[1] This is one of the generally used 14 Structural Indicators used by the E.U. and covering the six domains of General Economic Background, Employment, Innovation and Research, Economic Reform, Social Cohesion as well as the Environment. The „risk-of-poverty" rate indicator measuring the social exclusion „... is defined as the share of persons with an equivalised disposable income below the risk-of-poverty thresold, which is se tat 60% of the national median equivalised disposable income (after social transfers). This share is calculated before social transfers (original income including penson but excluding all other social transfers) and after social transfer (total income). In: (http://epp.eurostat.cec.int/portal)

context of the SMEs, the following two patterns were identified and evaluated. Firstly, the 'legal-administrative framework' related to the various aspects of working and employment conditions (e.g. health and safety, social security and pension requirements, restriction of working hours, etc.). Secondly, 'financial rules' like tax rates and structures.

Concerning the "legal-administrative" regulatory context we may say, at the European level that the "size-category of firm" has an important effect on the administrative burdens on the firm' functioning. There are significant differences between the countries participating in the project concerning the administrative burdens of SMEs. The different number of legal-administrative procedures and administrative costs of firms varying country by country draws attention to the phenomenon, that in the globalised economy also national governments and other institutions compete with each other in order to ensure a favourable regulatory environment for motivating both foreign and domestic investments. Evaluating a medium term period (e.g. in the period of 1997–2001), the rate of the firms complaining on an increase of administrative workload rises steadily with the size of the firm. However, we have to emphasize that the small and especially the micro firms have lack of the necessary human resources to cope efficiently with the administrative burden. In this respect, it is interesting to note that in Europe, on average 3.3 administrative procedures were necessary to administer a new employee hired. The form, content and costs of this administrative procedures related to the hiring of new personnel are rather different in the various countries participated in the Leonardo Project. For example, in both countries, Germany and the U.K. owners/employers have to go through administrative procedures before and after hiring new personnel, while in Belgium, France and Spain some recruitment administration process covers both time periods. If we evaluate the number of institutions (e.g. social insurance office, tax authority, employment office, accident assurance, etc.) owner/employer has to obligatory (officially) contact. Among the EU-15 countries, the heaviest administrative burden was registered in Belgium and the lightest one in the U.K.

The financial regulatory environment is reflecting the social-economic and historical-institutional context of the countries investigated in which the economic behaviours of the SMEs investigated are "embedded". From the middle of the 1990's and especially with the Lisbon strategy (2000) and with its revision (2005) several initiatives were launched in order to harmonise the various national tax system using the so-called "soft-coordination" or the "open method of coordination". This means a non-binding commitment to reciprocal consultation and benchmarking. However, in the field of integration only modest changes have taken place. According to many experts, only one substantial advance that can be noted is the implementation of the Lamfalussy programme for financial services. (Lamfalussy 2005). As for both labour market and tax reforms, the evidence does not support stronger integration in spite of the intense pressure of globalization and the related fast changes in the global value chain. In other words, "...no legislation could be proposed as the EU has almost no competence for labour

markets, taxation and social security: those areas primarily belong to the remit of the member states. Common targets were set instead, together with supporting league fables and a benchmarking of policies. It was expected that this non-binding coordination would encourage the adoption of best practices. To that end, the Commission had to draw up scoreboards on the basis of commonly agreed targets and indicators." (Pisany-Ferry 2005:4) Our experiences based on the analysis of on the tax rates and structures in the countries participating in the Project support well the critical assessment of two pillars of the Lisbon program such as the "economic integration" and "soft coordination of domestic labour market and pension reforms". More precisely, we have to note that in the EU-15 countries, the average tax-to-GDP ratio was 10 per cent higher in comparison both to the USA and Japan. Significant differences characterises the EU member states, too. In the countries investigated, the lowest tax burden was found in Spain, the U.K., Germany and Hungary stand somewhere in the middle and countries belonging into the group of the "coordinated capitalism" model are Belgium and France, where the highest tax rates were registered. Finally, in relation with the tax structure, it is worth noting the "leading edge" initiative of Slovakia. In this country, from the beginning of the 2004, profits of all business entities (individual entrepreneurs, foreign firms etc.) are subject to a single-linear percentage, the so-called "flat tax" at 19 per cent. The same flat rate is applied in the case of the VAT, too.

Part V

1. Collective Bargaining rate has strong relations with the size-category of firms. As the size of firms is growing, the share of employees covered by Collective Agreements is increasing, too.

2. In the OMS (EU-15) there is a tendency of concentration of union movements, in the NMS though a fragmentation trend was identified.

3. There are visible differences in governments' interventions in the countries participating in the Leonardo project concerning wage bargaining. The most 'interventionist' countries are Belgium and France and the weakest state role was found in the British practice.

4. Industrial actions indicate rather heterogeneous patterns measured by no. of working days lost by 1000 employees by strikes. The highest number of days lost by strikes was registered in Spain and the lowest in Germany and Poland.

5. The SME sector can be characterised by the strong informality of Industrial Relations Systems. There is a tendency toward the decentralisation of Collective Bargaining, especially the wage bargaining. In addition there is a shift from centralised, explicit forms of wage bargaining toward the more flexible forms of it.

6. Significant differences were identified in the use of such participatory system as the works council. One extreme case is represented by Germany, where the

threshold is five employees; the other extreme position is held by Belgium, where the works council is implemented only in firms employing at least 100 persons.

The presentation of the main actors and institutions of labour relations system (LRS) is in the focus of analysis carried out in the **Part V.** Firstly, the authors are providing an European and country level comparison of LRS. Secondly, in relations with the particular situation of SMEs, beside the informal and external norms oriented character of LMS in this sector, the experiences of the company case studies – with some exceptions (e.g. in the Belgium case) – indicated the dominance of the rather unfriendly attitudes both employers/owners and employees towards trade union presence in the firm.

Comparing the key patterns of LRS at *European level*, it is worth noting that: in the majority of countries – with the exception of the U.K. – the so-called "dual-channel system" is functioning: in addition to the trade unions a separate institution of employees' participation does exist. In relation with the trade union membership ("density rate") the highest rate was registered in Belgium (55.8%) and the lowest in France (9.7%). For the trade union structure ("organisational comprehensiveness") single or dominant peak organisation (confederation) were found in Germany, Slovakia and the U.K., in the remaining countries fragmented union structure (by occupation and political divide) was identified. In this relation it is necessary to mention that in the EU-15 countries' trade union movement is characterised by the trend of merger, while in the NMS it is still de-concentration and fragmentation that has taken place. Similar pattern was observed in the employers' side in concentrating functions to improve the quality of services of their member organisations. Collective bargaining (C.B.) is the core organisation of the LRS which shows stability and the coverage rate of which is twice as high than the union density rate. The C.B. coverage rate is higher in the EU-15 countries in comparison with the countries in the NMS. Evaluating the key source of the European wide industrial dispute we may say that wages or salaries are in the centre of conflicts between employers and employees and their respective interest representative associations. As a result of the decentralisation of LRS in the last decades, the "locus" of the wage-bargaining is the firm. This pattern is similar between EU-15 and NMS, with the exception of Slovakia. Beside the decentralisation of wage bargaining, we have to call the attention to another important feature of the wage bargaining: its explicit or implicit coordination. In this respect the following three groups should be distinguished: only Belgium maintained and reintroduced some forms of explicit coordination at national level, in Germany and Spain – where central agreements have set guidelines for wage conduct since 2001 – the implicit coordination has taken place between the social partners. Implicit coordination characterises the French wage-bargaining procedures. Finally, in the U.K., similarly to Poland, both national and sector level coordination are missing.

In relation with the *national level concertation and consultation*, variety of institutional arrangements was found in countries surveyed. Regarding the key role of the wage related issues, we intend to call the attention to the degree of govern-

ment intervention in the wage bargaining. Evaluating the degree of this intervention on of 5 – point scale, the countries' position participating in the Project is such as: the highest scores were reached in Belgium (4.1) and in France (3.1), followed by Hungary (3.0) and the lowest government intervention was identified in Germany (1.9), Spain (1.9) and in the U.K. (1.2). The government, trade unions and employers' national level representative bodies dealing with consultation, may take the form of bipartite, tripartite or a wider participation. Concerning their function, the following roles should be distinguished: advisory, consultative/negotiating roles and standard setting functions. In the EU-15 countries, the presence of the national bodies for consultation and representation is general. In the majority of cases, participation in such institutions is practices by national peak associations of both trade unions and employers' organisations. The statutory bodies which could be bipartite, tripartite etc. deal with general issues (e.g. in Belgium and Hungary) or specific issues such as social security administration (e.g. in France and Germany) or with the application of labour law and extension of collective agreements (as in the case of Germany).

The *"industrial actions"* mentioned above are highly sensible and media favoured characteristic of the LRS. However, the intensity of industrial actions in itself does not reflect automatically a malfunctioning labour relations system. The indicator such as number of working days lost by strikes per 1000 employees expresses functional distortion in this system. Comparing the available indicators (in the year of investigation: 2004) relating to the countries participating in the Project, the following rank-of-order was identified: (1) Spain (219.7 days), (2) Hungary (60.2 days), France (50.5 days), the UK: (27.5 days) and finally Germany (4 days) and Poland (2 days). It is misleading to use data concerning only one year, when we were comparing the period between 2000 and 2004, we found a rather different patterns: very low level of industrial actions – even absence in some years – were registered in NMS (especially in Hungary and Poland) and among the EU-15 countries in Germany. When comparing countries characterised by the broadly comparable size, the "big four" old EU countries (France, Germany, Spain and the U.K.) are representing at least two groups of countries: Spain has a considerably higher frequency of industrial actions in comparison with France, the U.K. and Germany. However, it is necessary to note that even in Spain, a rapid decline in working days lost by strikes was registered in the period between 2002 and 2003 and this fall is continuing.

Describing the roles of LRS in the *SME sector* – both European and country level – special attention was devoted to issues such as collective bargaining, collective representation and the attitudes of employers and trade unions towards to the LRS. Firstly, we intend to stress that there is a direct relationship between the company size and collective bargaining coverage rate: as the size of firm increases, so does the bargaining coverage rate. In the smaller firms, especially in those with fewer than 20 employees, collective agreements are exception. Secondly, in the case of such institution of employees' collective representation – with the exception of Sweden – in all EU-15 countries there is a minimum-

workforce-size threshold for establishment of Works Councils (WC). In relation with the countries participating in the Leonardo Project, the lowest threshold for the creation of WC is in Germany: 5 employees, followed by France, Hungary and Spain with 50 employees and in Belgium 100. In the U.K. there is no general or statutory system of information and consultation. Additionally, it is worth noting that beside the size of the firm, the acceptance of WC has a close relationship with the presence of trade unions in the firm. Finally, in relation with the employers' attitudes towards trade unions, we may say that they prefer the flexible employment relations – as a main source of their economic success – and have rather unfavourable opinions. In the company case studies the positive employers' opinion on the trade union presence was the exception. Even some cases, employees themselves have rather ambivalent opinion on the necessity of the trade unions on the workplace. Instead, they preferred the individual and informal arrangements based social consent with the employers.

Part VI

1. The dominant training form in the practice of SME sector are the On-the-Job Trainings (OJT) in comparison with the Off-the-Job Trainings (Off-JT).

2. Among the enterprises in the countries participating in the project the most time was spend on training in the fields of 'computer sciences/computer use' and 'engineering and manufacturing'.

3. Linear relation between the size of the firm and the time spend on training was found only in Hungary, Poland, Spain and in the UK.

4. Sector-specificity of 'sill equilibrium': in sectors mainly operating in the Old Economy (clothing, manufacturing, etc.) the so-called 'low-skill equilibrium' was identified while in sectors related to the New Economy (software, interactive media, etc.) the 'high-skill equilibrium' was dominant.

5. The size of firms was related to the intensity of innovation activities only in France, Spain and the UK.

6. The innovation activity of European firm compared to the ones operating in the US is low in general but there is an unequal share between product and process innovation with the relative weakness of the later one. In line with this the non-technical innovations are underdeveloped in the European firms in general and in the SMEs particular. Among the countries participating in the project Germany and Belgium represent a relative leading position of non-technical innovation while Hungary, France and Slovakia are lagging behind in this area.

In presenting of the key lessons on identifying and evaluating the various features of the knowledge development, transfer and use, in the Part VI we are using the so-called "Competence Chain Model". This approach has an ambition to map and asses the input and output of both the "in-house" and "external" competence development process in the company practice. On this analysis the following no-

tion of *competence* was adopted: "the synthesis of knowledge what you can learn in education, skills what you can gather in your job, at your workplace and in social life from your daily experiences and aptitude, which are abilities to use this knowledge and skill. This view of competence is rather similar to the EU Commission definition which basically covers the above listed contents or some of them, when considers it as capacity to use qualification, experience and knowledge efficiently.

Assessing the rank of orders of time spent on the Continuous Vocational Training (CVT) course in the countries participating in the Project, the following hierarchy was identified: "computer sciences/computer use" (1), "engineering and manufacturing" (2), "personal skill development" (3), "management and administration" (4) and at the bottom-end position was occupied by the "languages" (8). The rank of order o various fields of CVT reflects clearly the importance of the IT skills for the SMEs, however, in spite of the "hype" of the Knowledge Economy both in the public and the academic discourse, such traditional training as "engineering and manufacturing" is still playing leading role. These findings supports those views, which are stressing the intimate relations between the "Old" and "New" economies. In relation with effects of the size category of the firm, it is interesting to not that, with the exception Hungary, Poland, the U.K. and France there is no linear relations between the size of the firm and the time spent on training. In relation with the various fields of CVT, it is worth noting the largest amount of time spent in Hungary for the training in "accounting, finance", due not only to the complicate but unstable character of financial environment of the firms. Hungary is followed by the German and Polish firms. There is a general consent in the community of the business studies, that within the context of the globalization and the emerging role of the "network" paradigm" in comparison to the "economy of scale" paradigm, beside the IT competence, the "language" skill is a "sine qua condition" for SME to participate in the international economy or to be "global player". The firms in the Project countries are aware the importance of the language skill and are spending more time than the EU average – especially the Spanish firms – for language training.

Evaluating the practice of the "in-house" training, we may say that the size does matter more: firms employing 250 or more persons are using more actively their training courses. This type of training courses are organised in higher rate than the EU average in Germany and in the U.K. Hungary, Spain and Poland represent the bottom-end of the scale. Whilst France and Belgium are located between the two groups of the countries mentioned.

Looking at the evaluating-monitoring practice (e.g. satisfaction of participants, certification-validation of skill acquired, etc.) of the various training programs, this practice is diffused in higher than the EU (both in EU-15 and EU-25) average rate in the British practice. Choosing among the evaluation methods the tool of "measuring the satisfaction of participants", we may have a rather different company practice. The firm's size effect was not found both in the case of the British and French firms. However, this measurement tool was more extensively

used in the large firms in comparison with the SMEs in Germany, Hungary, Spain and Poland. The visible effect of size-category of firm on the application of variety of evaluating-monitoring of training was identified only in Belgium.

Beside the detailed review of the time spent on CVT courses, the company case studies conducted in various sectors (e.g. manufacturing, service, IT) helped us to map the rather informal characteristics of the knowledge development, share and transfer in the firm practice. In the Project's countries surveyed, the On-the-Job Training (OJT) is functioning together the Off-the-Job (Off-JT) described above. In other word, in the everyday life of the firms investigated, there are mutual relations (interactions) between the coded-formalised and the non-coded/tacit forms of knowledge. In this respect it is worth noting such forms of OJT as "learning by doing", "learning by interacting", "learning by using" mapped in the practice of firms functioning in both in the "old" and the "new" economies. However, owners/managers operating in the "knowledge economy" sectors (e.g. IT firms, new media companies, etc.) have stronger "awareness" on the importance of the "life-long-learning" than their counterparts participating in the "old" economy. The first group of entrepreneurs have an ambition to create "high-skill" equilibrium in comparison with the owners/managers of the "old" economy sector, who are satisfied with the creation of "low-skill" equilibrium. In this relation it is necessary to call attention to the key role of the new technology in the knowledge generation process. Firms, operating in both the EU-15 or EU-25 countries, employing "new technology" are spending more attention to the CVT compared to the firms without "new technology". Due the importance of the level of technology, finally, it is necessary to give a brief presentation on the "state of the art" of innovation in the SME sector.

Reviewing the Project countries' position in relation with the innovation activities the following rank-of order was identified. The highest rate of (aggregated) innovation activities were found in Germany, Belgium and France, the lowest ones in the New Member States (Hungary, Slovakia and Poland). Comparing the "product" versus "process" innovation, it is interesting to note that the "product innovation" more frequent in comparison with the "process innovation" in all countries, with the exception of Spain. As concerning to the "size-category effect" – with the exception of France, Spain and the U.K. – there were no clear relations between the size of the firm and the rate of product or process innovation. The relative weakness of process innovation compared to the product innovation, indicate an underdeveloped nature of non-technical innovations in the European firms in general and in the SMEs in particular. It is by no chance that according to the results of the latest (2003) European innovation scoreboard report, the US firms are advance over Europeans not only in the field of technological innovations but have "leading-edge" position in the case of the "non-technical innovations". As concerning the Project countries, such countries as Germany and Belgium are belonging into the "club" of "leading" non-technical innovators, while Hungary, France and especially Slovakia are representing the so-called "trailing-edge" country group.

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Part I

INTRODUCTION: DESIGN, THEORETICAL AND METHODOLOGICAL BACKGROUND

1. The purpose of the project and the participants

1.1. Comparative e-learning content based on research evidences

According to information from the Observatory of European SMEs more than 90% of enterprises in Europe belong to the category "small- and medium-sized enterprises', employing less than 250 people. These companies account for two-thirds of total European employment. In 1998 the contribution of the European SMEs to GDP was 48% on average (Observatory 2003). There is no doubt that SMEs play a crucial role not only in sustaining the adaptability, dynamics and competitiveness of European economies but, through significant employment generation, they also improve the cohesiveness of European societies. The dominance of SMEs in employment and economic performance is far from being a new phenomenon: since the mid 1980s there has been a continuing interest on the part both of policy makers and the academic community in the role SMEs play both in economic and social development.

The growing importance of SMEs must be particularly stressed in the case of the former state-socialist countries. In these countries one important phenomenon of the post-socialist economic and social transformation process was the radical change of the size-structure of economic organisations. The state-socialist economy was dominated by state-owned large firms, but since the collapse of this political and economic regime the number and proportion of small- and medium-sized enterprises has dramatically increased. For example, in Hungary, as a result of an extremely rapid transformation process the number of SMEs grew by 50% between 1990 and 1995 until it stabilized at the end of the 90s (Román 2002:8). See Table 1.1 below:

Table 1.1

Size Distribution of manufacturing firms: planned versus capitalist economies (1970)

	Planned economies[1]	Capitalist economies[2]
All manufacturing firms		
1. Average number of employees per firm	197	80
2. Percentage of those employed by large firms[3]	66%	32%
Textile industry		
1. Average number of employees per firm	355	81
2. Percentage of those employed by large firms	61%	28%
The ferrous metal industry		
1. Average number of employees per firm	253	82
2. Percentage of those employed by large firms	61%	28%
The chemical industry		
1. Average number of employees per firm	325	104
2. Percentage of those employed by large firms	79%	35%
The food-processing industry		
1. Average number of employees per firm	103	65
2. Percentage of those employed by large firms	39%	16%

[1] The sample includes Czechoslovakia, East Germany, Hungary and Poland.

[2] The sample includes Austria, Belgium, France, Italy, Japan and Sweden.

[3] Large firms employ more than 500 people.

Source: Kornai 1992:400.

There are other additional issues which directed attention to SMEs. The first one is the so-called 'tertiarisation' of the economy, which means the transformation from an industrial to a service economy. SMEs have always played a dominant role in the service sector; that is the growth of the service sector upgraded the position of the SME sector. Another important reason for a revaluation of the SME sector is related to outsourcing and networking tendencies. Empirical evidences show that skills are becoming increasingly specialized and as a consequence large firms outsource their non-core competencies, which creates new opportunities for smaller enterprises that can become suppliers to larger ones. In line with this "the downsizing waves in large enterprises have turned attention towards the SME as an engine of economic growth and employment." (Dejonckheere – Ramioul – Van Hootegem 2003:7) These trends are greatly facilitated by the emergence and extensive use of the new information and communication technologies (ICT). A third characteristic of SMEs related to the above-mentioned outsourcing practices is the creation of more flexible organisational solutions.

Another important factor, which may explain why SMEs deserve special attention, is the revaluated role that knowledge plays in economic development and global job-competition. Clear evidences suggest that SMEs have a strong impact

on the diffusion of new knowledge (the 'spill over mechanism'), above all through their flexibility, adaptability and absorptive capacity (Observatory 2003:14). In the processes connected to the creation, sharing and use of knowledge one of the most important resources SMEs exploit is undoubtedly *human capital*. This recognition has led the project participants to compile a research-based international e-learning curriculum intended for present and future SME owners and managers. The aim of the project was not just to reproduce existing knowledge but to create new one. Therefore the first phase of the project consisted of an intensive research period focused on the current status of SMEs within the national economies of the participant countries and on the analysis and comparison of similarities and differences between the various SME systems, under the coordination of the Institute of Sociology of the Hungarian Academy of Sciences. The outcomes of this phase of joint work involving the Leonardo consortium members were the national curricula (National Research Reports), available both in English and in the national languages, and the comparative curriculum (Comparative Research Report) in English. In the second phase of the project, coordinated by the Budapest Business School, an e-learning curriculum was developed, based on the results of the research period of the joint work.

To summarise, the project intended to identify the different sources of knowledge and competence needed for SMEs and to describe the interplay between them (e.g. what kind of knowledge serves as a basis of competence and vice versa) and how the fast changing content of knowledge and skills can be upgraded continuously. The final aim of the project was to help the SMEs in their trans-national mobility within the European economic space based on the systematically collected information on the legal and financial regulatory environment characterising the countries participated in the Leonardo project. The Report provides information about the legal-administrative environment of SMEs which is based on data from 2004 and 2005.

1.2. Target groups (business school students, owners/managers of SMEs)

The project has multi-layered target-groups. The first layer comprises national SMEs, beneficiaries of the different training courses and the regular student population who will be reached by the project through the undergraduate or graduate training courses offered by educational institutions involved in the project. The second strand is European and national decision makers who will be helped in that the project will supply them with a more differentiated knowledge on the European SME sector, thus improving business-to-business relations (i.e. the project contributes to an intensification of business ties and cooperation between firms belonging to the EU-15 and New Member States /NMS10/). The third strand of the target group is made up of the academic communities of the participating countries and the national employers' associations invited to be partners

in the project who will debate and criticise the outcomes of the project, contributing in this way to the improvement of the activities undertaken and to the evaluation process.

1.3. Exploiting the 'leading edge' e-learning experiences of educational institutions involved in the Project

The consortium was set up following the 'doubled character' of the project, i.e. research activities combined with the development of training materials. Since the target group of the project was partly comprised of adult entrepreneurs it was necessary to involve universities with experience in the field of distance learning in order to ensure the quality of training material development. Therefore five members of the consortium were educational institutions: Budapest Business School (Hungary), UNED (Spain), EHSAL (Belgium), Université Nanterre (France), University of Wismar (Germany) and Luton Business School (UK). In order to complete the comprehensive experience these institutions have in teaching and developing e-learning curricula, three research institutes with extensive experience in the field of comparative research in social sciences were invited to collaborate in the project as well: the Institute of Sociology of the Hungarian Academy of Sciences (Hungary), the coordinator for producing content (national and international comparative research reports), the Institute of Sociology of the Slovak Academy (Slovak Republic) and the Institute of Labour and Social Studies (Poland). In order to represent the special needs of user groups the Confederation of Hungarian Employers and Industrialists participated in the project together with employers' associations representing the SME sector in the other countries in the consortium.

Other country selection criterion was the type of capitalism – or more precisely the model of the market coordination[2]. In this relation the following varieties of capitalism were distinguished:

- *"Coordinated Market Economy"* (CME): *Germany* and *Belgium* are corporate welfare states (financed primarily through contributions and providing a high level of benefits),
- *"Liberal Market Economy"* (LME): *the United Kingdom* is a model of liberal market economy (universal but low benefits),
- *"Mediterranean Market Economy"* (MME): *France* and *Spain* represent the Mediterranean model of market economy,
- *"Transitional Market Economies"* (TME): *Hungary*, *Poland* and *Slovakia*, the emerging Central European market economies or former state-socialist economies.

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[2] For the detailed description of this model see Section 2.3 in this Part.

2. Theoretical background and the selection of countries participating in the project

2.1. Research and educational technical criteria shaping the pool of countries participating in the project

Due to the unique character of the research proposal, which aimed to develop original knowledge (partly accessible in international publications) based on theoretically founded empirical research on SMEs, and to transform the results of the research into training material ('international curriculum') using leading edge educational technology (e-learning), when selecting countries for the Leonardo research consortium, the research proposal designers had to find partners satisfying the following two criteria at the same time:

(1) Firstly, the potential partners had to be familiar with international comparative research in the social sciences. This is not just limited to the necessary research skills of individual participants (e.g. language skills, familiarity with carrying out case studies, conducting interviews, etc), but requires such 'collective' skills as setting up a temporal research team, coordinating the progress of work, the capacity to monitor the progress of the various work packages, etc. In other words, the successful participation of various national teams in the project required the combination of these individual and organisational skills described above, together with the related learning capacity during the project.

(2) Secondly, they had to have either first hand experiences in transforming empirical research results (content) into technologically advanced training material (e-learning) or to have ongoing working relations with educational institutions capable of developing e-learning material.

2.2. Creating a sample of countries representing the variety of market coordinating mechanisms (a mix of CME and LME and a variety of Old and New Member States of the EU)

In deciding on the member-countries of the project consortium, beside the above briefly presented criteria, other theoretical and methodological arguments were used as well. In this respect, we should note that comparative social research dealing with the developed economies has a long history. In the last half century of research aimed at describing and interpreting the differences in the economic and political institutions in different countries various perspectives can be identified.[3] From the 2nd World War until the 1960s the so-called "*modernisation approach*' was the mainstream view in comparing the developed market economies. Followers of this view focused on institutional forms that ensured the leading role

[3] This brief outline of the economic comparative literature is based on the seminal work of Hall-Soskice 2001:2–4. and completed by Sapir 2005.

of the state (e.g. using the planning system as a key tool in modernising the national economy) over the actors of the private sector of the economy. Protagonists of this view often classified countries into the following dual categories: 'strong' vs. 'weak' states, representing the intensity of economic organiser activity of the state.

In the 1970s when high inflation became a key concern of economic and social actors in the developed market economies, issues related to *neo-corporatism* became the focus of interest in comparative research. Although there is a plethora of definitions, this term basically refers to the capacity of the state to reach a more or less stable consensus with organisations representing employers' and employees' interests, not only on working conditions and wages but on social and economic policy too. In international comparative research practice a particular role was assigned to the trade unions and the best performer countries were the small and open economies of the Nordic region.

In the 1980s and 1990s the flexible production systems, national innovation regimes and the various reorganisation attempts related to technological change and globalisation became the focus of interest in international comparative studies. This approach was labelled as the *social systems of production*. Due to the strong sociological content of this view, this school of comparative analysis paid particular attention to the role of institutions which generated trust and improved individual, and especially collective, learning capacity both at national and regional levels. In this context, we would like to stress the particular economic success, as a result of strong networking activity, achieved by the Central Italian SMEs (Third Italy).[4]

At the turn of the 20th and 21st century the "*Varieties of Capitalism*' (VoC) approach became the mainstream view among scholars, representing both communities of business studies and comparative political economy.[5] Compared to the previous approaches briefly presented above, this framework locates business organisations at the centre of analysis, attributing a more active role to the relevant actors such as individuals, firms, producer groups, governments, and various organisations representing interest groups etc. in shaping its internal and external environments. The core concept of this approach can be summarised in the following way: "(...) this is a firm-centred political economy that regards companies as the crucial actors in a capitalist economy. They are the key agents of adjustment in the face of technological change or international competition whose activities aggregate into overall levels of economic performance."[6]

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[4] Simonyi Á. (1989), *A kisvállalkozások fellendülésének társadalmi hátteréről: Az olasz példa. (Social dimensions of the economic development of SMEs: the Italian case.)* Közgazdasági Szemle, 1989/5.

[5] In outlining the main features of the VoC approach, we used the framework elaborated by Hall-Soskice 2001:6–68.

[6] Hall-Soskice 2001:6.

This concept of the "relational view' of the firm investigates the following dimensions of inter-firm relations which play a core role in their dynamic capacity to solve the problems of coordination in market economies:

(1) *Labour Relation Systems* aimed at coordinate bargaining – between employers and employees or between the organisations representing their respective interests – over working and employment conditions and wages in particular.

(2) *Vocational training and education systems* aimed at regulating the patterns of use, development and investment of workforce skills. The outcome of the coordination problems related to the previously mentioned features of these skills has a decisive impact both on the competitiveness of the firm and the national economy.

(3) The outcomes of the coordination are influenced by the forms of *corporate governance.* This sphere of the firms' relationships conditions the firms' access to finance and represents a guarantee of returns for investors/stockholders.

(4) It is also worth stressing the crucial importance of the coordination problems of *inter-firm relations* (e.g. the relationships a firm has with its clients or suppliers, etc.). In the context of global competition pressure, these types of coordination (collaborative R&D) have gained greater importance in the last decade.

(5) The questions of these coordination problems also arise in the terrain of the firm's own employees. In this relation, the core problem is how to create consensus between the firm and the employees in order to visualise and mobilise the knowledge (tacit skill) owned by the workers.

Using the basic elements of the VoC concept briefly outlined above, Hall and Soskice (2000) made a distinction between two main types of coordination mechanisms functioning in the developed market economies. The first one is the so-called Coordinated Market Economy (CME) in which non-market structures and regulations play visible roles. In this type of economy, the relations between firms and other economic actors are regulated by the so-called non-market relations (e.g. the importance of 'relational' contracting; the importance of relations based on cooperation are in many cases more important than relations based on competition, etc.). Contrary to the CME, in the Liberal Market Economy (LME) the equilibrium of the firms is guaranteed by market (supply and demand) and hierarchical (firm organisational or intra-firm) regulation. The literature of classical political economy has analysed the forms and mechanisms of the LME in depth.

There are significant differences in the patterns of company structures and hierarchies according to the models of market coordination. Moreover, the creation of cooperation between the economic actors requires network-type regulations which complement both market and hierarchical ones. In addition, developing and maintaining collective coordination mechanisms in the economy limits the "marge de manœuvre' of the firms. For example, the degree of autonomy of firms' management is strongly influenced by the forms of coordination. These forms of coordination (e.g. labour relation systems, inter-firm relations, corporate governance, vocational training and education, etc) constitute the institutional context of business organisations.

In this perspective, firms' reactions (e.g. production and sales strategy, employment policy, etc.) to the same type of social, technological and economic challenges (increased global competition pressure, extensive use of outsourcing and offshoring, implementation of ICT, liberalisation of air traffic, etc.) differ according to the institutional context. For example British firms operating in the context of LME (e.g. British Airways) have reacted differently in comparison with German firms operating in the institutional conditions of CME to the challenge generated by the liberalisation of air traffic which began in the second half of 1980s.[7] In relation to issues to be analysed in the Leonardo project (e.g. location of SMEs in the national economy, the regulatory framework and SMEs, the labour relation system, knowledge use and innovation activity, etc.), using the example of labour relations and the level of unemployment, we would like to illustrate the impact of the LME and CME institutional contexts. See in detail in Table 2.1.

Table 2.1

Trade union density, level of collective bargaining and days lost by strike activity: examples of LME and CME countries

Countries	Trade union density (%)		Bargaining level[1]		Working days lost due to strike activity: (N° of days lost per 1000 employees)[2]
	1950–73	1985–92	1985–92	1950–73	1991–2000
Australia	54	49	3.0	3.0	108.2
Canada	30	32	1.0	1.0	189.0
UK	45	51	1.0	1.7	23.1
USA	39	40	1.0	1.3	51.3
LME average	**39**	**40**	**1.5**	**1.7**	**n. d.**
Austria	63	55	2.0	2.2	
Belgium	48	68	2.5	2.0	3.8
Denmark	59	81	2.8	4.0	30.9
Finland	41	88	2.8	3.2	169.2
Germany	38	37	2.0	2.0	82.2
Japan	34	25	2.0	1.4	9.3
Netherlands	40	28	3.7	3.7	2.0
Norway	58	63	3.6	3.8	18.3
Sweden	71	95	2.9	3.7	97.1
Switzerland	37	29	2.0	2.0	30.4
CME average	**49**	**57**	**2.5**	**2.8**	**1.5**

[1] 1 = plant-level wage-setting; 2 = industry-level wage-setting; 3 = central wage-setting without sanctions, 4 = central wage-setting with sanctions. Value recorded is the average for the period indicated.

[2] The source of the data is the following: Institut für Arbeitsmarkt- und Berufsforshung (IAB), quoted by Inotai E. (2005) Ha jól megy, több a sztrájk. (More strikes when the economy works well) *Népszabadság*, 16th August, p. 13.

Source: Hall P.A., Soskice D. (2001), *Varieties of Capitalism* (*The Institutional Foundations of Comparative Advantage*), Oxford: Oxford University Press, an edited version of the tables on pp. 20 and 59.

[7] Mark Lehrer (2001), Macro-varieties of Capitalism and Micro-varieties of Strategic Management in European Airlines (in:) Hall-Soskice 2001:361–386.

The data presented in the table above draws attention to the following inconsistencies of the VoC model. Firstly, the CME and LME do not represent the two extreme points of the same scale of variety in the coordinating mechanisms of market economies. Rather, they form two separate scales of market coordinating mechanisms and within each scale we can identify various sub-models. This is well illustrated by the empirical evidence on the working days lost due to strike activity. For example, Denmark is formally located on the scale of CME and produced almost the same high level of working days lost as Canada, a country situated on the LME scale.[8] Secondly, there is a group of countries which belong neither to the LME group nor to the CME group of countries and are called by Hall-Soskice (2001:20–21) 'Mediterranean Market Economies' (MME). According to the authors, this class of countries is characterised by the importance of agriculture, and the strong role of the state in the economy, and in this context it is necessary to point out the special intervention of the state (i.e. a kind of non-market regulation) in the field of the financial support system of firms. However, in these countries (Italy, Greece, Portugal and Spain) the labour market is fairly deregulated and shows visible similarities with the institutions of LME countries.

Unfortunately, during the planning period of the Leonardo project proposal (2001) and even now, we have to cope with the 'knowledge deficiency' on classifying the economic development trajectories of the candidate countries, the majority of whom are referred to from 1st May 2004 as New Member States (NMS). However, on the basis of our previous research experiences[9] and the fragmented knowledge based on, many cases, incomparable international research findings; we anticipated that the ten NMS countries do not constitute a homogenous block from the point of view of market coordination mechanisms. In this perspective, the NMS can be placed in the following groups of countries:

(1) *Baltic republics:* Lithuania, Latvia and Estonia.

(2) *Mediterranean countries:* Malta and Cyprus.

(3) *Central European Countries:* Czech Republic, Hungary, Poland, Slovakia and Slovenia.

Using the tested model for the developed market economies (CME, LME, MME) and the geographical classification of the NMS, the following country sample was constructed:

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[8] Makó Cs., Illéssy M. (2005), *Interplay of technological and organisational innovations: the case of eWork diffusion in NMS* (in:) Ramioul M., Huws U., Bolen A. (eds.), *The Measuring Information Society*, Leuven: HIVA.

[9] Makó Cs., Warhurst C. (1999), *The Management and Organisation of Firm in the Global Context*, Budapest: University of Gödöllő – Budapest University of Economic Sciences. Makó Cs., Simonyi Á. (1997), *Inheritance, Imitation and Genuine Solutions*, (Institution Building in Hungarian – Labour Relations), *Europe – Asia Studies*, Vol. 49. No. 2. March, pp. 221–244. Szelényi I., Kostello E. (1996), *The market transition debate: toward a synthesis?*', *American Journal of Sociology*, Vol. 101, No. 4, January, pp.1082–1096.; Jacot J.-H. (1990), *Du Fordism au Toyotism?* (Les voies de la modernisation du system automobile en France et au Japon). Paris: La Documentation Francaise.

Table 2.2

Rationale of the selection of countries participating in the Leonardo project

Group of Countries	Countries selected for the Leonardo project consortium
	EU-15
CME	Belgium, France, Germany
LME	UK
MME	Spain
	NMS 10
Baltic republics	
Central European Countries	Hungary, Poland, Slovakia
Mediterranean Countries	

3. Methodology: a combination of 'cross-national' (functional) and 'inter-national' (societal) approaches

3.1. Brief overview of international comparative approaches

In the last decade, under the pressure of globalization and increased competition, we have witnessed a growing interest in international comparative research in the social sciences. However, despite the increased interest there is a visible shortage of work dealing with the theoretical foundations of comparative research. There are only modest theoretical efforts to better understand the advantages and disadvantages of the various approaches used in international comparative research. This situation is rather surprising, firstly because there is a strong theoretical tradition in the social sciences which stresses the key role of 'comparison' as a basis for all scientific approaches in the social sciences, as Durkheim frequently observed.[10] Secondly, policy makers, both at a national and a supranational level rely extensively on evidences drawn from international comparative research when positioning their countries or cluster of countries (e.g. ranking NMS in attracting FDI, the positioning of OECD or EU-25 countries in terms of innovation, ICT diffusion, international competitiveness, working conditions, quality of life etc.). The extensive use of comparative data may serve as an external legitimating factor both in the success of the ruling policy makers or in helping the forces of the opposition use unfavourable comparative data which justify their confrontations with their political enemies. In this sense, international comparative research literature continually produces data and analyses which serve the interests of the political elite.[11]

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[10] Benoit-Guilbot, 1989, quoted by Théret, 1997:164.

[11] Théret B. (1997), Méthodologie des comparaison internationales, approches de l'effet sociétal et de la régulation: fondements pour une lecture structuraliste des systemes nationaux de protection

Due to the extensive use of comparative data in our present analysis, it is worth briefly reviewing the mainstream approaches of international comparative research. When identifying the various types of international comparative approaches we can distinguish the following criterion (Maurice 1989):

1. *Level of analysis*, in this sense we make a distinction between macro and 'infra-societal' levels (e.g. mezo, micro) indicating the locus of the objects investigated. (status of society)

2. *Continuous or discontinuous* character of the objects investigated from one country to another. (status of comparison)

A combination of these dimensions (e.g. vertical relations between the society and the object studies and the horizontal relation between objects investigated) creates a scale of analysis on which each type of comparative approach could be located, according to Maurice, who elaborated the so-called 'societal' or 'international' approach. This approach redefines the status of the notion of 'nation' or 'society' as well as the status/preconditions of continuity and discontinuity in international comparison. This means that there is a continuity if the object studied is comparable from country to country, while there is a discontinuity when this is not the case (i.e. the object studied is not comparable term by term from country to country). (Maurice 1989:177).

Using the two criteria or dimensions, the following types of international comparisons should be distinguished:

1. the 'cross-national' or functionalist approach,
2. the 'cross-cultural' or cultural approach,
3. the 'inter-national' or societal approach comparison

In the case of the *'cross-national' approach*, the comparison is based on the principle of 'rationality', which asserts continuity between the phenomena compared 'term by term' or 'item by item'. Rationality and the related principle of continuity of phenomena imply that various economic or social indicators (e.g. the rate of unemployment) are comparable by countries and such social-institutional contexts as the labour relations system, training and education, labour market institutions etc. only play a residual role. The notion of 'functional equivalence' often used in this type of comparative work indicates that the categories compared (e.g. 'on-the-job' training) have the same meaning in different countries participating in the comparative research.

Enterprises (or their various structural elements such as the technology or architecture of organizations etc.) are treated as a 'culturally free' phenomenon; history or the local characteristics of organisations are treated as a 'residual' problem. The 'nation' has a rather neutral contextual meaning and does not represent any

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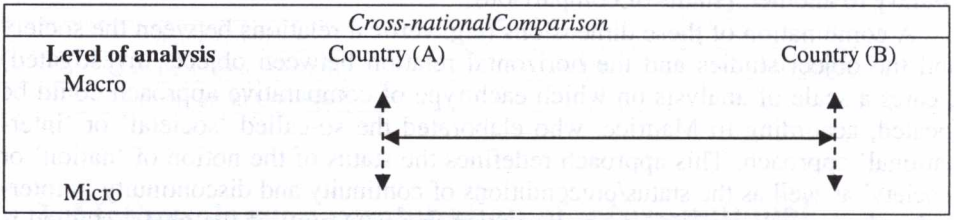
sociale, *L'Année de la régulation, Economies, Instutions, Pouvoirs,* Vol. 1, Paris: Éditions La Découverte & Syros, p. 164.; Schienstock G. (2005), From path dependency to path creation: Finland as a case in point; Paper prepared for the 37th World Conference of the International Insitute of Sociology, Stockholm, Sweden, 5–9. July.

discontinuity of the structural dimensions of organisations compared by countries. The 'culture free' synonym or label of the 'cross-national' approach well illustrates its universalistic character, reflecting the influence of the 'convergence of societies' theory.

Figure 3.1 is a stylised presentation of the direction of relations between various levels of analysis and the degree of continuity between the phenomena compared by countries.



(1) Lack of interaction between the macro and micro level.

(2) Strong continuity between phenomena investigated, comparison 'by item'.

Figure 3.1. Cross-national' Comparison (Maurice 1989:179)

The *'cross-cultural' approach* represents the other extreme point on the scale of international comparative research. In opposition to the 'cross-national' or 'functionalist' view, the 'cross-cultural' approach stresses the great variety of the objects surveyed due to the strong influence of the national culture, and, according this view, it is impossible to make a mechanic comparison country by country and term by term. In addition, in contrast to the 'functionalist' view – which presupposes a continuity of phenomena compared between countries – the 'cross-cultural' approach stresses the strong discontinuity of objects compared in various national cultures, therefore its power of generalisation is rather weak. However, this method of comparison – in contrast with the functionalist view – helps us to better understand the various dimensions of the national contexts[12]. In this context is worth noting the 'renewed attempt' within the 'cross-cultural' approach which is designed to fill with content the principle of comparison by suggesting 'intermediary' concepts between the national culture and the objects or phenomena compared in different countries. (e.g. strategy or power in the case of Crozier or Friedberg or 'habitus' in the work of Bourdieu[13]). The next figure presents the main characteristics of the cultural approach in the social sciences.

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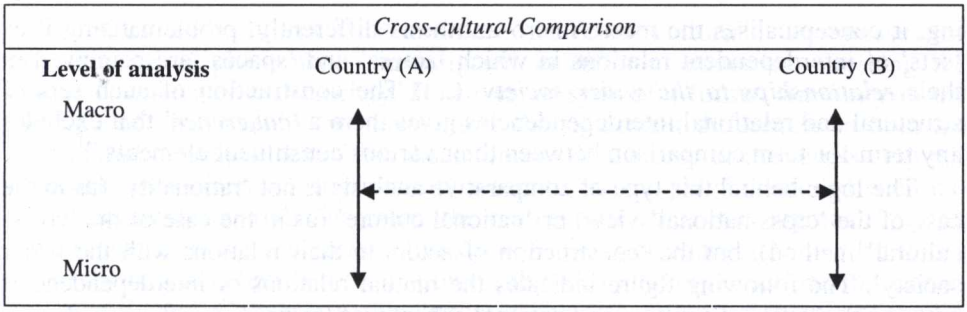
[12] In this context it is necessary to mention such emblematic work carried out in the perspective of the 'cross-cultural' approach as Hofstede G. (1980), *Culture's consequences; International differences in work-related values,* London: Sage; D'Iribarne Ph. (1989), *La logique de l'honneur, gestioin des enterprises et traditions nationales*, Paris: Le Seuil.

[13] Crozier M., Friedberg E. (1997), *L'Acteur et le systeme,* Paris: Le Seuil, Bourdieu P., Wacquant L.J.D. (1992), *An invitation to reflexive sociology*, Cambridge: Polity Press.



(1) Strong influence of the national culture
(2) Strong discontinuity between the phenomena investigated.

Figure 3.2. 'Cross-cultural' Comparison (Maurice 1989:180)

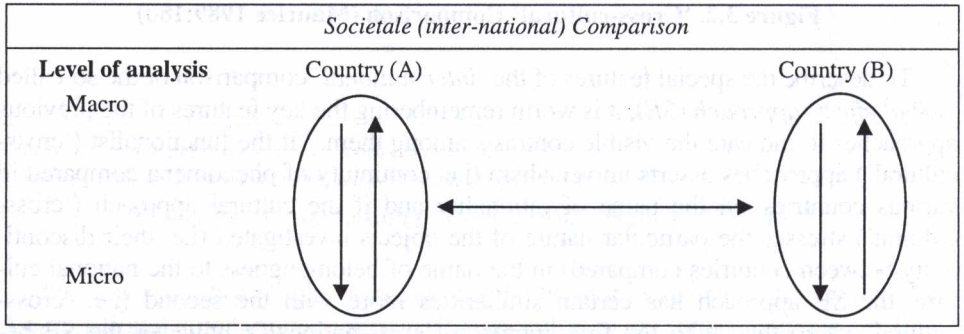
To describe the special features of the *'inter-national'* comparison or the so-called *'social effect' approach (SE)*, it is worth remembering the key features of the previous approaches to indicate the visible contrasts among them. "If the functionalist ('cross-cultural') approaches asserts universalism (i.e. continuity of phenomena compared in various countries) in the name of rationality and if the cultural approach ('cross-cultural') stresses the particular nature of the objects investigated (i.e. their discontinuity between countries compared) in the name of belongingness to the national culture, the SE approach has certain similarities more with the second (i.e. 'cross-cultural' view) than with the first approach ('cross-national'); however the SE belongs in another category of comparative methods." (Maurice 1989:182).

The SE approach is a special form of structural analysis in stressing the intimate or inseparable relations ('reciprocity relations') between the actors and the system. In this case the comparability principle does not apply directly to the particular phenomena or items (objects) compared 'term by term' but is applied to a certain model constructed by a particular "(...) structuration of spaces and actors being mutually interdependent. If one in each case recognizes the same basic elements of structuration (general education, occupational training, seniority, hierarchical position ...), differences between them spring from the relations that these elements have with each other; not in an isomorphic (or identical) sense as is the case in systemic or functionalist models (...)".[14] In other words, the interdependency of the objects within this 'structuration of domains and actors' represents the so-called 'national coherence' varying from country to country. Therefore, the SE approach has a paradoxical characteristic: it attempts to 'compare the incomparable'. The exclusion of the comparison 'term by term' reflects the discontinuous character of this approach and, paradoxically, there is continuity in comparing the 'particular societal coherence'. The content of this key notion of the SE approach has recently been well summarised by the creator of the concept himself: "Societal analysis tends to reach beyond this rhetoric by giving comparability a new status. In so do-

[14] Maurice, quoted by Korsnes 2000:72.

ing, it conceptualises the macro/micro antithesis differently, problematising it as 'sets' of interdependent relations in which 'actors' and 'spaces' are perceived in their *relationships to the wider society*. (...) The construction of such sets of structural and relational interdependencies gives them a '*coherence*' that excludes any term-for-term comparison between their various constituent elements."[15]

The logic behind this type of comparative analysis is not 'rationality' (as in the case of the 'cross-national' view) or 'national culture' (as in the case of the 'cross-cultural' method), but the 'construction of actors in their relations with the wider society'. The following figure indicates the mutual relations or interdependencies between the levels of analysis and national coherences (societies).



(1) Strong interaction between macro and micro composites of national coherence.
(2) The comparability of national coherences is based on the paradox of the non-comparability 'term by term' of the composite elements of the national coherence.

Figure 3.3. 'Inter-national' comparison or comparison SE (Maurice, 1989:182)

As we can see from the above figure, the SE approach can be characterised by discontinuity and continuity at the same time. Discontinuity refers to the denial of methodological universalism and 'term by term' (simplified) comparison of objects investigated in different countries (i.e. there is a discontinuity between countries). However, the SE approach can also be characterised by continuity as long as national coherences (as characterised earlier) are at the centre of comparison. The SE approach tries to go beyond the methodological limits of both the functional and cultural approaches by shifting the logic of the analysis, while the functional ('cross-national') approach de-contextualises the objects or phenomenon investigated (this is an implicit theoretical methodological consequence of the underestimated importance attributed to national contexts and of the universalism postulated).

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[15] Maurice M. (2000), The paradoxes of societal analysis – A review of the past and prospects for the future (in:) Maurice M., Sorge A. (eds.) (2000), *Embedding Organizations*, Amsterdam/Philadelphia: John Benjamins Publishing Company, p. 16.

Contrary to the functionalist approach, the 'cross-cultural' view stresses the discontinuity of phenomenon investigated in different countries, stressing the unique character of each society. However, in spite of a formal similarity in the principle of discontinuity, we must stress the significant differences in both the content and consequences of this discontinuity. In the case of the 'cross-cultural' approach, the content of discontinuity refers to the unique character of each national culture compared. Therefore, the representatives of this approach rely on various intermediary categories of analysis (objects or concepts) in order to describe the relations between the national culture and the organisational phenomenon investigated. Conversely, the content of the discontinuity principle of the SE approach refers to the interactive construction of actors and spaces in their relationship to the wider society (these are the three key concepts of the SE approach: social spaces, actors and their relations[16]). In other words, the SE approach aims to socialise the objects of investigation whereas other paradigms (e.g. 'cross-national' and 'cross-cultural') tend either to de-socialise or de-contextualise them in order to make them comparable (as is the case with cross-national approaches) or do not really problematise it, presuming that differences emanating from the cultural diversity of countries are evident and do not need any further investigation.[17]

Finally, it is necessary to mention several critics of the SE approach. Recently, researchers belonging to the SE approach school have been drawing attention to the following weak or underdeveloped features of the approach[18]:

(1) The notion of reciprocal conditioning (Giddens 1984 – Structure and Actor Duality) interprets the duality in such a way that boundaries between actor and structure/system are blurred. The ambiguous view of actors and their roles becomes more evident when we turn to the analysis of social changes in the SE approach. "A weakness here is that actors are viewed as only affected by structural features internal to the sub-system under review and extraneous sources of influence emanating from a different society or from a global system, are given no consideration." (Lane 2000:191)

(2) "(...) The notion of reciprocal conditioning implies that mutual shaping is of the same intensity in any actor within the system constellation and that the general process occurs in the same manner in all such constellations. Such an understanding obscures important structural differences between societies." (Lane 2000:193) We share those approaches in which the degree of social embedded-

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[16] Korsnes O. (2000), Situated Creativity of Economic Actors. in: Maurice M., Sorge, A. (eds.) (2000), *Embedding Organizations*, Amsterdam/Philadelphia: John Benjamins Publishing Company, p. 82.

[17] For example, when the SE approach stresses the social construct character of various national models of work organisation, this indicates a relativisation of its meaning. As for the fordist or taylorist model, empirical studies conducted in various countries have revealed that it took different forms in each case, with each society 'digesting' fordism on its own way, depending on the availability of resources and the particular pattern of labour relations. On this subject see: Makó Cs. (2005), Neo- instead of post-Fordism: the transformation of labour processes in Hungary, *International Journal of Human Resource Management*, 16:2 February 2005, pp. 277–289.

[18] Lane C. (2000), Understanding the globalization strategies of German and British multinational companies: Is a 'societal effects' approach still useful? In: Maurice, Sorge 2000:189–208.

ness of an action is better described by Granovetter (1985)[19] who draws a contrast between over-socialised and under-socialised forms economic behaviour or by Whitley (1994)[20] who introduced the notion of tight vs. loose ties between organisations and social institutions (Lane 2000:193)

(3) "(...) any change in structural patterns is attributed mainly to unforeseen consequences of actions, rather than being a result of conscious strategic choice." Intensifying globalisation processes have rather problematic consequences for the SE approach. Actors under the pressure of globalisation are exposed to multiple and conflicting systemic constraints and opportunities with no guarantee that societal effects of the home base (e.g. international HRM practices of Japanese firms) of a business organisation (i.e. Transnational Corporations) will always prevail. In this view the possible impacts of globalisation "(...) are not of the same order as say, the impact of new technologies which are adopted by one distinctive set of actors in one pre-existing social system." (Lane 2000:192.)

(4) The SE approach overfocused on labour-related issues and neglected the fact that capital serves as an impediment to an understanding of internationalisation processes now impinging on national industrial systems.

In spite of the briefly presented weaknesses of the SE approach, we would like to stress the following positive features of the 'sociological institutionalism' of the SE comparative method. "This framework has not only helped to understand the continued reproduction of national diversity in the face of supposedly strong homogenizing influences, such as rapid technological change and much increased international competition, but has also illuminated the nature of incremental societal change. By positing the notion of strategic fit between certain technological contingences and certain social syndromes (Sorge 1991) the approach also explains industrial specialization between societies and, in the absence of specialization, differing degrees of competitiveness in the same market segment." (Lane 2000:191)

3.2. Rationales behind selecting the issues and the levels of investigation

In the general practice of international comparative research on SMEs, the so-called 'cross-national' (functionalist) method represents the mainstream approach. (Román 2002). Using this approach – its main characteristics were described in comparison with the 'cross-cultural' and 'societal' approaches in the previous section – researchers have to confront the problems of the lack of and inconsistencies in statistical data concerning the activity of SMEs. In many cases, even a 'term by term' comparison is impossible due to the limited availability of data and due to the

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[19] Granovetter M. (1985), Economic Action and Social Structure: the Problem of Embeddedness. *American Journal of Sociology* 91 (3): 481–510.

[20] Whitley R. (1994), The internationalisation of firms and market: Its significance and institutional structuring, *Organizations*, (1) pp. 101–124.

use of different data collection techniques in the countries surveyed. In this context, it is worth mentioning the weakening activity of international statistical and/or monitoring agencies in collecting and publishing statistics on the economic and social importance of this sector. (For example, in spite of the 'evergreen' rhetoric on the SMEs role both in economic performance and employment generation, such international statistical agencies as Eurostat or the Observatory of European SMEs have published less statistical data and analysis on the activities of firms belonging to this size-category in recent years in comparison to previous period.)

In spite of the shortcomings of comparative data analyses on SME activities, the Leonardo Project Consortium selected the following issues for comparative purposes:

(1) The general economic situation of countries and the particular position of SMEs in the national economies participating in the project.

(2) The legal and financial regulative framework in a both descriptive and comparative perspective.

(3) The institutions of social regulation: the impact of the Labour Relations System and the control strategies in the labour process.

(4) The practice of knowledge use and innovation activities.

To overcome the shortcomings of the 'term by term' statistical analyses or 'cross-national' versions of the comparative research, special attention was devoted to putting the SME sector-related statistical analyses into their national, social and cultural context. In 'socialising' the objects or phenomena investigated (e.g. taxation, the creation and termination of small firms, innovation capacity, etc.), we intend to enlarge the scope of comparison. The statistical analysis of the European and national-level data was completed by an infra-national (i.e. sector- and micro-) level of analysis. The multilevel statistical (quantitative) data analysis was combined with qualitative methods such as company case studies and descriptions of the position of various sectors (manufacturing, services, ICT-industries) in the national economy through experiences learned from interviews with key stakeholders (experts, representatives of employers' associations, chambers and other business organisations, etc). In analysing company practices through case studies and by assessing and interpreting the views of important social actors operating in the sectors investigated, we made an attempt to 're-socialise' the evidence's gained from statistical data analysis for the eight countries surveyed in the Leonardo project.[21] The core ambition of this methodological exercise was to better understand the everyday practice of organising and managing SMEs operating in the group of countries we selected, belonging both to the EU (15) and the New Member States (10).

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[21] In relation to the preparation of the case study, we should note one shortcoming of this comparative project. In spite of the significant number of company case studies (28) carried out in 3 sectors mentioned above, due to a lack of resources and the fact that the project participants were not equally familiar with the case study method, we did not succeed in conducting a sufficient number of interviews with employees of the firms studied.

Due to the unsatisfactory circumstances of data collection and evaluations indicated above, the research consortium partly succeeded in collecting and securing the planned dataset of empirical knowledge based on the combination of quantitative and qualitative data. Equipped with this knowledge, we tried to go further than the 'term by term' comparison of objects and to construct patterns of reciprocal relations between structures and actors that would ensure higher value-added knowledge rather than just a simple statistical data analysis.

Summarising the key dimensions of our methodology, we stress that the issues presented briefly in this section represent the comparison of objects and phenomenon on a horizontal scale (e.g. relations between actors and structures) while the vertical scale is indicated by the interactions between macro (national), meso (sector) and micro (company) levels of analysis (i.e. the same objects should be studied at various levels).

4. Research techniques used in the investigation

4.1. Three stage research methodology (analysis)

Although the core role of SMEs in economic growth, employment generation and the stabilisation and strengthening of social cohesion is evident, there is a shortage of research which concentrates on the special problems they have to face in different economic sectors. That is why the Leonardo project consortium agreed to carry out research within the sector-focused framework using the methodological approaches outlined above. The description and analysis of the economic and social environment of SMEs is a complex task and it is extremely difficult if we want to investigate this segment of firms in the perspective of an international comparison. In line with this consideration the consortium agreed to use a research approach based on a combination of various research methods.

As we mentioned above, the research was carried out in three stages. The aim of the *first stage* was to give a general overview and a comparison of the position of SMEs within the national economies of the participant countries. In this stage the logic of the 'functional' or 'cross-national' approach was followed. Secondary analysis of existing statistical data was also carried out. In this process, we relied mainly, but not exclusively, on the datasets of the EUROSTAT, the European Observatory of SMEs, OECD yearbooks, etc. and national statistical offices in the participant countries. The key aim was to identify the economic and social locus of SMEs in the participant countries based on an 'item-by-item' comparison of the main statistical indicators such as their share in GDP, exports and employment. This approach is only able to provide a general overview of SMEs, without including the social-institutional context in the analysis by presuming a 'functional equivalence' between the individual indicators.

On the other hand the ambition of the research consortium was not just to provide a general picture of the economic performance of the SME sectors in the countries surveyed but – following the logic of the societal approach (SE) presented in the earlier section – to identify and compare the institutional contexts of

the enterprise and the mutual interrelations between them and the other actors in the SME sector. The *second stage* of the research was undertaken in accordance with this aim. The main purpose of the second stage of the research was to identify the institutional framework designating the fields of action in which SMEs operate.

As a result of globalisation and the recent European enlargement, new economic and social spaces are complementing existing ones. However the legal and financial regulatory environment which strongly influences the SMEs' room for manoeuvre still remains embedded within the national institutional framework. Recognising the importance of the national systems, descriptive research was carried out at this stage in order to analyse and evaluate the legal and financial environment of the SME sector. This analysis involved reviewing existing laws, studies, research reports and other relevant documents concerning these issues and comparing the different legal and financial systems of the participant countries. In this context we must stress that the intention is to identify patterns of regulation instead of simply presenting information on frequently changing rules. This research was partially based on an 'item-by-item' comparison where possible, but we also tried to evaluate the dynamics of the different systems, especially focusing on the way they influence the economic and social processes within the SME sector.

As mentioned earlier strong empirical evidence shows that knowledge plays a crucial role in economic growth and SMEs operating in the knowledge-intensive sectors have a great impact on the creation and sharing of knowledge. In addition to the second stage, a comparative analysis was carried out on the knowledge use and innovation practices of SMEs. This was focused partly on the institutions providing training courses for entrepreneurs and firms (supply side), and partly on the training practices of SMEs (demand side).

As we have repeatedly pointed out, despite the growing interest in the SME sector, there is a shortage of systematically collected knowledge about their everyday practices. Therefore the *third stage* of the research was based on *company case studies*. The aim of this stage was not to collect information on the separate individual company cases but, in line with the methodological perspective of the aforementioned societal approach (SE), to analyse and to make issues comparable. For this purpose the team of the Institute of Sociology of the Hungarian Academy of Sciences as coordinator designed a special case study research methodology, which will be presented in the next section.

4.2. Detailed description of the case study methods used in the research

Critics of qualitative research, including case studies, often emphasize that the small number of cases investigated cannot offer statistically valid and generalized findings. Another critique is that case studies question the objectivity of researchers and they are not an appropriate way of explaining correlations between the phenomena investigated. Without questioning the above briefly outlined criticism of the methodological weakness of the case study method, we intend to stress the value-added character of it.

The 'societal effect' approach (SE) (Maurice 2000) stresses on the double function of the case study method: firstly, it illuminates the relations between actors, structures and spaces at various levels (macro- and infra-societal), which cannot be achieved by the exclusive application of statistical analysis widely used in the social sciences. Secondly, in accordance with the above-mentioned method of data analysis, the case study is an irreplaceable tool for describing and understanding the dynamic and reciprocal relations between the actors and the institutional context ('reciprocal conditioning').

In order to understand a case (e.g. functions, firms, labour process) embedded in its social and economical/institutional context, a multi-level analysis should be carried out. The case study method generally used in our work consists of the following levels:

1. *A national and sector level statistical analysis* of objects or phenomena selected for investigation was carried out. For example, when the object of investigation is the new forms of work organisation (i.e. project type working arrangements) of the new interactive media firms, in order to understand this issue in its complexity, we have to locate the interactive media sub-sector within the national and sectoral (ICT industry) context. The aim of this level of analysis is to characterise this sector (sub-sector) within the national economy through the secondary analysis of selected economic indicators (the economic performance of the sector: its contribution to GDP, exports, etc) and the relevant employment indicators (employment relations, composition of labour by gender, age, education, etc). This level of analysis follows the logic of the cross-national or functional approach extensively used in the practice of international comparative projects.

2. *The second level of analysis* consists of various types of research tools: "problem-centred qualitative interviews" (Flecker, Kirschenhofer 2002) and semi-structured in-depth interviews with the most important social actors/stakeholders, secondary analysis of relevant document/action plans, and participation in important forums of social actors. This level of analysis aims to understand the social/organisational and economic characteristics of the sub-sector (i.e. interactive media or tourism) through the views of stakeholders operating in this area (e.g. representatives of chambers, professional associations, employers' and employees' organisations, functionaries-specialists from ministries and various government agencies, etc.).

3. *The third level of analysis* represents the company case study itself, which is based primarily on interviews with owners/managers and employees and other stakeholders of the firm examined in order to analyse business functions or the role of customers, etc. The aim of the company case study is to identify the mutual interplay between the economic actors and their institutional context described in the previous level of analysis.

Summing up the contribution of the three-level analysis in relation to the mainstream comparative research approaches, we would like to stress the following. The national – and sector oriented statistical data analysis (i.e. the first level) reflects the logic of the cross-national (functional) approach, while the sector (sub-sector) and company focused analysis (2nd and 3rd level) together represent the perspective

of the societal approach. Our intention with the combination of the above briefly presented comparative research methods was to overcome the weaknesses of the exclusive use of either of them and to reach a desirable 'methodological equilibrium'.

The following table illustrates the various characteristics of the combined use of the mainstream comparative approaches.

Table 4.1

Methodological characteristics of the approaches adopted in the Leonardo Project practice[22]

Levels of data collection and analysis	Approach(es)	Methods and sources of data collection	Analytical purposes
(1) Macro- and sector level	Functional (cross-national)	Statistical data collection and processing	To locate the object of analysis within the national economy
(2) Macro and sector level (mapping the views of stakeholders)	Societal (inter-national)	Interviews with stakeholders and processing relevant documents concerned with business functions and occupational groups surveyed	Description and assessment of the institutions and the key programs shaping the 'room for manoeuvre' of the actors surveyed
(3) Micro-level (company case studies)	Societal (inter-national)	Interviews with various actors	Identifying and describing the forms and content of relations between actors and institutions

Before presenting the methods designed for international comparative work, it is necessary to note that the frequency of the organizational surveys is rather low in the SME sector. In this respect we share the following opinion: "The cost to question a small organisation is similar to that of questioning a large organisation in most surveys. However, questioning a large unit covers a larger portion of jobs. Confinement to larger organisations therefore makes it possible to chart a large proportion of jobs based on research on into a relatively small number of units. A second argument is the unavailability of database which also includes (qualitatively adequate, reliable information about) small organisation. Thirdly, operationalisation problems are also quoted. In this context, it is pointed out that variables related to organisation structures, teamwork, industrial relations, etc. are more difficult to uncover in small organisations, due to the lack of formal and sufficiently stable structures and forms of work. Finally, it is often more difficult to identify a respondent in small organisations. In most surveys, the questionnaires are addressed to the head of personnel. In small organisations, this kind of separate post is often missing." (Huys 2005:9).

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22 This method was developed by the Research Group for Sociology of Work and Organisation, Institute of Sociology – HAS, and tested in the Leonardo and SMALL (EU 5th Framework) projects.

4.3. Combination of desk top research methods with first hand field study techniques (interviewing)

As we outlined above, a combination of research tools was used in the project according to the research stages and proper methodological considerations. During the project both quantitative and qualitative research techniques were mixed. At the first stage of the research (statistical analysis of SMEs), desk top research was carried out through secondary analysis of existing statistical datasets. At the second stage (description of the legal and financial environment and knowledge-related issues) desk top studies were set up as well, based on reprocessing statistics and available strategic documents related to the issues investigated. At the third level (company case studies) desk top research and interview-based field work were combined. This stage of the research was based on an analysis of sector-focused statistical sources and semi-structured, problem-oriented in-depth-interviews with stakeholders and owners/employers and employees of SMEs.

While compiling this report, four types of source were considered:

- Theoretical studies in the fields of international comparative research (cross-national, cross-cultural and societal approaches), sociological-institutional approaches (for example: varieties of capitalism views, regulation school, and delocalisation of generic business functions (lessons from the eighteen-country employers' survey of EMERGENCE project).
- Several international quantitative studies (European Observatory for SMEs, EUROSTAT, OECD, World Bank, European LFS, various surveys of European Foundation for the Improvement of Living and Working Conditions, EIRO thematic surveys, etc.)
- Quantitative sources: comparative analysis both at European and national levels on the economic position of the SME sector surveyed in the countries participating in the LEONARDO project, data collection and analyses based on the data sets of National Statistical Offices of the various countries involved in the project, use of the existing comparative studies on the taken under the aegis of the European Commission (EC) Directorate-General for Employment and Social Affairs.
- Original research reports based on both desk-top studies (for example analysis and evaluation of documents concerning the legal-administrative and financial regulatory frameworks of establishing and operating practice of SMEs), statistical analysis of the position of SMEs in the national economies prepared by the participants, 28 research reports based on company case studies carried out in the following economic activities: manufacturing, service/tourism and ICT-sector.

Since we had several problems with the available statistics, the following table shows the *most important data sources* that were used in the research.

Table 4.2

Main data sources used in this report

Data source	Data base	Period covered	Further information
European Foundation for Improvement of Living and Working Conditions	Working conditions	2001	www.eurofound.eu.int
Eurostat or "SMEs in Europe' (Competitiveness, innovation and the knowledge-driven society)	Continuing Vocational Training Survey (CVTS)	1996–2001	www.europa.eu.int/comm/eurostat/
LEONARDO project	Description of the legal and financial environment of SMEs	2003–2004	http://www.bgf.hu/en/content/ ?faculty=bgf&c_Id=88
LEONARDO project	Case Studies in the following sectors: ICT, clothing, tourism and health care	2003–2004	http://www.bgf.hu/en/content/ ?faculty=bgf&c_Id=88
LEONARDO project	Statistical analyses of the SMEs	1990–2003	http://www.bgf.hu/en/content/ ?faculty=bgf&c_Id=88
LEONARDO project	National Reports on SMEs	2003–2004	http://www.bgf.hu/en/content/ ?faculty=bgf&c_Id=88
Observatory of European SMEs	SMEs in Europe in 2003		http://europa.eu.int/comm/enterprise/enteprisepolicy/analysis/observatory_en.htm
Observatory of European SMEs	SMEs and access to finance		http://europa.eu.int/comm/enterprise/enteprisepolicy/analysis/observatory_en.htm
Observatory of European SMEs	Competence development in SMEs		http://europa.eu.int/comm/enterprise/enteprisepolicy/analysis/observatory_en.htm

ANNEX I.1

Information about the case studies*

Table 4.3

Basic information about the firms investigated in the case studies

Country	Number of cases	Name of the company	Sector (Activity)	Number of employees	Number of interviewees at company level	Position of interviewees in the firm
1	2	3	4	5	6	7
Belgium	1.		Construction	100	1	owner/CEO
	2.		Tourism (Travel agency)	2	1	owner
France	1.	Effisoft	ICT (Software)	56		
	2.	Arthur&Marie	Manufacturing (Toys)	25	1	executive director
	3.	Ragni SA	Manufacturing (Lightning apparatuses)	49	1	owner
	4.	Lassalle et Cie	Service (Road transport)	48	1	head manager
Germany	1.	Seehotel BINZ-THERME	Tourism (Hotel)	130	1	owner/CEO
	2.	Click Solutions	ICT (E-business)	2	2	owners/managers
	3.	Krassow Bau	Construction		1	owner/CEO
	4.	Rathgeber & Partners	Service (Business games)	5	1	owner/CEO

continued on the next page

* This table provides information only about the number of interview at enterprise level. Please note that it does not contain information about the stakeholder-interviews. In the case of missing company names the owners/employers of firms requested explicitly anonymity of the firm investigated.

1	2	3	4	5	6	7
Hungary	1.	Kowalsky Co.	ICT (Interactive media)	58	4	1. owner/head of new media division, 2. digital media manager, 3. digital media manager, 4. senior developer
	2.	Tours Ltd.	Tourism (Travel agency)	6	2	1. owner, 2. office leader
Poland	3.	Hungarment Ltd.	Manufacturing (Cloth-ing)	6	2	1. owner/managing direc-tor, 2. employee, sewer
	1.		Manufacturing (Pasta)	110	1	managing director
	2.		Service (Funeral services)	64	1	owner
	3.		Tourism	23	1	owner/manager
	4.		ICT (Software and hardware)	37	1	owner/manager
Slovakia	1.		ICT (Internet café)	1	1	owner
	2.	M. S.	Tourism (Operating ski lifts)	10	1	executive director
	3.	M. F.	Service (Retail trade)	10	1	managing director
Spain	1.	Decom	ICT (Virtual reality)	30	1	general manager
	2.	Rural Sant Vincent	Manufacturing (Citrus)	165 on average, but 320 in the summer	1	manager
	3.	Scalastours	Tourism (Travel agency)	3	1	owner
	4.	Gruas Gil Cadiz Co.	Service (Logistics)	54	1	manager
UK	1.	Mobil City	ICT (Mobil phone services)	2	1	owner
	2.	Radio-Tech Ltd.	Manufacturing (Radio industry)	16	1	marketing manager
	3.	Wild Track	Service (Training)		1	commercial director

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Part II

NATIONAL ECONOMIES AND THE LOCATION OF SMEs

The description of the contribution of SMEs to the national economies (countries) participating in the Leonardo project was carried out in the following two steps. Firstly, we intended to describe briefly the economic profile of the countries. In this context we tried to compare changes in GDP, employment, unemployment, GDP per inhabitant in PPS (Purchasing Power Standards), etc. Secondly, we wanted to assess the performance of SMEs in such fields as employment generation, exports and productivity. In this analysis, we relied on the following data sources:

1. Statistical economic analyses elaborated by each national team involved in the Project.
2. The latest edition of the Eurostat yearbook (2004) and other statistics published by international institutions (e.g. the European Central Bank).
3. The latest publications of the Observatory of European SMEs.
4. Other research reports dealing with the economic development (i.e. Foreign Direct Investment) of the countries surveyed.

Unfortunately, in some countries, especially in the New Member States, there are hardly any data available concerning the performance of SMEs. For example, in the latest publication of the Observatory of European SMEs (2004), presenting the statistical analysis of SMEs in Europe in 2003, we found only one figure using aggregated data and one table of a similar kind of data aggregation on (at that time) Acceding and Candidate Countries. Despite the fact that the Observatory of European SMEs published a very interesting detailed statistical analysis not only on an aggregated level but also country by country, we could not compare them with the data related to the New Member States. These problems were only partly counterbalanced by the statistical analysis of the national economies provided by the project partners[23].

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[23] In this context, it is worth mentioning the following syndrome: in spite of the standard structure and the obligatory character of the questionnaire of the European Labour Force Survey (LFS), due to the financial difficulties of the national statistical office, the LFS carried out for example in Poland did not cover all issues.

5. Profile of the national economies participating in the project

For the comparison of macroeconomic data, we selected such indicators which offered us an 'item-by-item' comparison between the countries involved in the Project. This practice of statistical comparison fits well with the characteristics of the 'cross-national' or 'functional' comparative research approach (for a detailed presentation of this, see the first part, section 3.1). For this purpose we selected the following indicators:

- GDP,
- GDP per inhabitant in PPS,
- Gross value added by economic activities,
- Employment and changes in employment,
- Unemployment,
- Average gross annual earnings in industry and services,
- Total R&D expenditure,
- Share of foreign companies in corporate R&D expenditure,
- The distribution of ICT services in Europe.

Evaluating the economic performance of the countries participating in the Leonardo project in terms of their contribution to the European-level GDP, we can state that there are huge differences between the Old and New Member States. The share of GDP by countries in 2003 indicates that three countries participating in the Leonardo project produced almost 2/3rd of the GDP of the Euro-zone. On the other hand, the three New Member States represent less than 1/5th of the GDP of the UK. However, evaluating average GDP annual growth between 1996 and 2000, we can say that all of the New Member States involved in the Project have higher GDP growth in comparison with the EU-15 countries (Table 5.1). The indicator of 'Gross Domestic Product per inhabitant in PPS'[24] shows the visible inequalities and the significant variations in the rate of growth between 1994 (for the EU-25 from 1998) and 2005 in the economic performance of the national economies surveyed. It is not at all surprising that the differences between the lowest and highest level of GDP per inhabitant in PPS is almond threefold: the lowest level is represented by Poland (11,600) and the highest level of the same indicator is registered in the UK (29,010). The table illustrating the growth of GDP per inhabitant in PPS draws attention to the significant variations in the growth rate in the countries surveyed. In spite of the fact that from 1998 to 2005 there are no noticeable differences between the average growth rates of EU-15 (134%) and EU-25 (131%), among the individual countries we identified marked differences. In this context, it is worth noting that all the three New Member

[24] Expressing GDP in PPS (purchasing power standard) eliminates differences in price levels between countries, and a calculation on a per head basis allows the comparison of economies significantly different in absolute size.

States (Hungary: 157%, Slovakia: 146%, Poland: 141%) have a higher growth rate than both EU-15 and EU-25 countries. Within the EU-15 countries, only Spain (141%) and the UK (138%) have a higher growth rate than either the EU-15 or the EU-25 average. See in detail Table 5.1 and 5.2.

Table 5.1

GDP in Leonardo countries (annual percentage volume changes, unless otherwise indicated, quarterly data working day adjusted)

Country	Share (in %, 2003)	Average 1996–2000	Average 2001–2003	2003	2004
Belgium	3.7	2.7	1.0	1.3	2.7
France	21.4	2.8	1.3	0.6	2.6
Germany	29.8	2.0	0.4	0.0	1.6
Spain	10.2	3.9	2.5	2.5	2.7
Euro area	*100.0*	*2.6*	*1.0*	*0.5*	*2.1*
Hungary	0.8	4.0	3.5	3.0	4.0
Poland	1.9	5.1	2.1	3.8	5.3
Slovak Rep.	0.3	3.7	4.3	4.5	5.5
UK	16.3	3.2	2.1	2.2	3.1
EU-25	*100.0*	*2.7*	*1.2*	*0.9*	*2.4*

Source: ECB (2005), p. 36.

Table 5.2

GDP per inhabitant in Purchasing Power Standards (in euro)

Country	1994	1998	2005 (forecasts)	2005/1998 (%)
EU-25	No data	18,470	24,120	131
EU-15	17,060	20,330	27,160	134
Belgium	18,510	21,430	27,860	130
France	17,890	21,160	27,180	128
Germany	18,520	21,130	25,770	122
Hungary	7,900	9,510	14,940	157
Poland	No data	8,210	11,600	141
Slovak Republic	7,740	8,820	12,860	146
Spain	13,420	16,460	23,260	141
UK	16,960	21,010	29,010	138

GDP (gross domestic product) is an indicator of a nation's economic situation. It reflects the total value of all goods and services used for intermediate consumption in their production. Expressing GDP in PPS (purchasing power standard) eliminates differences in price levels between countries, and a calculation on a per head basis allows the comparison of economies significantly different in absolute size.

Based on the table in Eurostat 2004:118.

The aggregated version of GDP does not indicate the structure of economic activity in the countries investigated. Comparison of the gross value added by economic activity informs us of the relative importance of the various sub-sectors of the economy. In this context, it is interesting to note that the in majority of the EU-15 countries involved in the Project – with the exception of Germany – the service (business and other services) sector and the sub-sector of 'trade and transport' are the dominant sectors. (Beside the service and transport sub-sector, manufacturing activities are more important in the New Member States. However, substantial differences can be identified within the two groups of countries, too. In the case of New Member States, Poland and Slovakia have a visibly higher share of 'trade and transport' within their economic activity in comparison with Hungary. In the case of EU-15 countries, the construction industry and 'trade and transport' in Spain represent double the share within economic activities compared to the other countries. Contrary to the previous pattern, financial and business services are the least important in Spain, while in the remaining EU-15 countries this is the most important sector).

Table 5.3

Gross value added by economic activity in 2004 (percentages of total)

Country	Agriculture and fishing	Manufacturing	Construction	Trade and Transport	Finance and business	Other services
Belgium	1.4	19.6	4.9	20.6	29.0	24.5
France	2.4	19.0	5.2	18.2	31.3	24.0
Germany	1.1	25.1	4.0	18.1	29.1	22.6
Hungary	3.3	25.4	5.2	21.0	21.0	24.1
Poland	2.9	26.6	5.6	28.3	16.4	20.1
Slovakia	3.9	26.5	5.6	25.8	21.3	16.9
Spain	3.0	18.3	10.2	27.3	20.5	20.7
UK	1.0	19.1	6.3	23.5	29.5	20.7

Source: ECB 2005:37.

The comparison of tables 5.4 and 5.1 highlights the following striking patterns. The EU-15 countries participating in the Leonardo project represent, in terms of both employment and GDP contribution, almost the same weight. For example, France, Germany and Spain have a 59.7% share of employment and a 60% share of GDP contribution. Similarly, the UK – which does not belong to the euro area – has a 15.5% share in employment and a 16% share in GDP of the EU-25. In the case of New Member States, a radically opposite pattern was registered. The share in employment of the three countries surveyed (Hungary, Poland, Slovakia) is 9.8% but their contribution to the EU-25 GDP is only 3%, which reflects to the differences between the economies of the Old and New Member States in terms of productivity.

Table 5.4 shows a significant gap in the level of employment between EU-15 and NMS countries surveyed in the project. Countries belonging to the first category (Belgium, France, Germany, Spain and the UK) have without exception a higher employment rate in comparison with the New Member States (Hungary, Poland and Slovakia). Looking at the differences within these two groups of countries, visible inequalities were registered in the EU-15 economies. In this context, it is worth noting that the UK (71.8%) exceeded the EU target for both 2005 (67.0%) and 2010 (70%). In the EU-15 countries involved in the project, only Germany (65.0%) produced around the EU average (64.4%), while all other countries underperformed (Belgium: 59.6%; France: 63.2%; Spain: 59.7%).

Table 5.4

Employment rates in the participant countries (annual percentage volume changes, unless otherwise indicated)

Country	Share (in %, 2003)	Average 1996–2000	Average 2001–2003	Employment rate (%)*	2003	2004
Belgium	3.1	1.3	0.4	59.6	0.1	-
France	18.5	1.4	0.8	63.2	-0.1	0.0
Germany	28.8	0.8	-0.4	65.0	-1.0	0.4
Spain	12.4	3.0	1.9	57.0	1.8	2.1
Euro area	*100.0*	*1.5*	*0.7*	51.2	*0.2*	*0.5*
Hungary	2.0	1.1	0.8	57.7	1.3	-0.5
Poland	6.7	0.4	-	59.7	-	-
Slovakia	1.1	-0.8	0.6	71.8	-0.3	0.1
UK	15.5	1.2	0.9	64.4	1.1	-
EU-25	*100.0*	-	-	62.9	-	-

* The employment rate indicator was created on the database published in 'Facing the Challenge' (2004:49–50).

Source: ECB 2005:39.

Reviewing the unemployment statistics between 1996 and 2000 (Table 5.5 and 5.6) and the year of investigation (2004) in the euro area and EU-25, the following patterns could be summarised. During the period of 1996–2000, in the euro area, Belgium (8.7%) and Germany (8.3%) had a lower, while France (10.7%) and Spain (14.9%) a higher unemployment rate than the average (9.7%). In the same period, among the EU-25 countries Hungary (8%) and UK (6.5%) had a lower unemployment rate than the average (9.8%). In the year of investigation (2004) with the exception of Germany, the rate of unemployment decreased. In the bloc of EU-25 countries, two phenomena were registered. Firstly, the unemployment rate in the UK further decreased (from 6.5% to 4.9%). Secondly, there are shocking differences among the New Member States (e.g. Poland: 18.8%, Slovakia: 18% vs. Hungary: 5.9%).

In the case of long-term unemployment, the following differences were identified: both EU-15 (3.3%) and EU-25 (4.0%) average rates were surpassed in all countries with the exception of the UK (1.1%) and Hungary (2.4%). In this context, we must point out that while in the EU-15 countries, the differences between the lowest (the UK: 1.1%) and the highest (Germany: 4.6%) rate is four-fold, for the New Member States, with the exception of Hungary (2.4%), the rate of long-term unemployment is double digit (Slovakia 11.1%; Poland: 10.7%) compared to the one digit rates of the EU-15 countries (Germany: 4.6%; Spain: 3.9%; Belgium: 3.7%; France: 3.5% and finally the UK: 1.1%).

Beside the rate of unemployment, the Wim Kok Report 2004 used an interesting measure which informs us about the degree of social exclusion in the countries investigated. Measuring the 'social exclusion rate', the above-mentioned report used the indicator 'at-risk-of-poverty rate'. Among the EU-15 countries participating in the project, the highest rates were registered in Spain (19%), UK (17%) and France (15%) and the lowest in Germany (11%) and Belgium (13%). For the New Member States, Hungary has the lowest rate (10%) even if we compare it with the previous group of countries, but Poland (15%) and especially Slovakia (21%) are nearer to the countries included in the highest 'at-risk--of-poverty rate'.

Table 5.5

Unemployment rates in the participant countries (% of labour force, unless otherwise indicated)

Country	Share (in %, 2003)	Average 1996–2000	Average 2001–2003	2003	2004
Belgium	2.8	8.7	7.4	7.9	7.8
France	20.8	10.7	9.1	9.5	9.7
Germany	29.8	8.3	8.5	9.1	9.5
Spain	17.1	14.9	11.0	11.3	10.8
Euro area	*100.0*	*9.7*	*8.4*	*8.7*	*8.8*
Hungary	1.2	8.0	5.7	5.7	5.9
Poland*	17.0	12.7	19.1	19.2	18.8
Slovakia**	2.4	13.1 | 18.6	18.4	17.5	18.0
UK	7.8	6.5	4.9	5.0	4.6
EU-25	*100.0*	*9.8*	*8.8*	*8.9*	*9.0*

* Average unemployment rate between 1996–2000 for Poland is not available in ECB (2005); the table shows our own calculation based on Sienkiewicz – Bednarski 2004:8.

** Average unemployment data between 1996–2000 for Slovakia is not available, therefore we had to use the unemployment rates of the years 1995 (13.1%) and 2000 (18.6%), source: Zajac 2004:6.

Source: ECB 2005:40.

In the context of global competitive pressure, the gross annual earnings in industry and services and employment costs in general are one of the most important competitive advantages. Therefore, it is necessary to look at the gross annual

earnings increase in the countries surveyed and especially the average cost of employment across these countries. Concerning the average gross annual earnings in industry and services, the latest EUROSTAT Yearbook (published in 2004) unfortunately only contains data from 2002 (Table 5.7).

Table 5.6

Unemployment rates in the Leonardo countries

Country	Average 1996–2000*	Unemployment (2003)*	Unemployment (2004)*	Long-term unemployment rate (%)**	At-risk-of-poverty rate (%)**
Belgium	8.7	7.9	7.8	3.7	13.0
France	10.7	9.5	9.7	3.5	15.0
Germany	8.3	9.1	9.5	4.6	11.0
Hungary	8.0	5.7	5.9	2.4	10.0
Poland	-	19.2	18.8	10.7	15.0
Slovakia	-	17.5	18.0	11.1	21.0
Spain	14.9	11.3	10.8	3.9	19.0
UK	6.5	5.0	4.6	1.1	17.0
EU-15	*9.8*	*8.9*	*9.0*	3.3	15.0
EU-25	*n. d.*	*n. d.*	*n. d.*	4.0	15.0

* Source: ECB 2005:40.

** Source: 'Facing the Challenge' 2004:49–50.

Table 5.7 shows that in the New Member States' economies the growth rate of average gross annual earnings in industry and services is substantially higher (Poland: 173%; Hungary: 159%; Slovakia: 139%) than both the EU-15 average (119%) and that of the EU-15 countries investigated in the project. In this group of countries, only the UK (138%) has a higher – and a significantly higher – average rate. In all other countries (Spain: 117%; Belgium: 116%; Germany: 109%; France: 107%), between 1998–2002, the rate of annual increase in gross average earnings was lower.

In the context of rapidly growing knowledge economy, the position of national economies both in research and development and in innovation activities will have a decisive impact on economic growth and productivity. Evaluating R&D expenditure from several perspectives, firstly we would like to give a general overview of development trends for total R&D expenditure. In addition, we intend to present the rank order of the total R&D expenditure in the last year for which statistics are available from the countries investigated. Moreover, we would like to illustrate the outstanding role of Foreign Direct Investments (FDI) in the technological catching up process and to demonstrate the benefits of technology produced by FDI (note: in this case we can use only a single country example as a benchmark).

Table 5.7

Average gross annual earnings in industry and services (of full-time employees in enterprises with 10 or more employees; in ECU/EUR)

Country	1998	1999	2000	2001	2002	2002/1998
Belgium	29,616	30,701	31,644	33,109	34,330	116
France	25,519	25,947	26,521	27,319	*n. d.*	107*
Germany	36,033	36,862	37,253	38,204	39,440	109
Spain	16,528	17,038	17,432	17,874	18,462	117
Hungary	3,686	3,770	4,172	4,898	5,871	159
Poland	4,156	5,310	*n. d.*	7,509	7,172	173
Slovakia	3,292	3,125	3,583	3,837	4,582	139
UK	29,370	32,269	37,677	39,233	40,553	138
EU-15	*22,142*	*23,080*	*25,527*	*26,288*	*n. d.*	*119**

** Data not available for 2002, therefore we used the data of 2001.*

Source: OECD 2004:144.

Table 5.8 indicates two things. Firstly, there are shocking differences between Leonardo project countries in the absolute level of R&D expenditure measured as a percentage of GDP. Countries belonging to the EU-15 spend several times more on R&D as a percentage of GDP than the New Member States. Secondly, in the EU-15 countries we can see an increase in expenditure – although at a rather unequal rate – and in the New Member States we note, with the exception of Hungary, a pattern of decreasing total R&D expenditure.

Table 5.8

Total R&D expenditure as a % of GDP

Country	1998	1999	2000	2001	2002	2002/1998
Belgium	1.90	1.96	2.04	2.17	n. d.	1.90
France	2.17	2.18	2.18	2.23	2.20	2.17
Germany	2.31	2.44	2.49	2.51	2.51	2.31
Spain	0.89	0.88	0.94	0.95	n.d.	0.89
Hungary	0.68	0.69	0.80	0.94	n.d.	0.68
Poland	n.d.	0.70	0.66	0.64	0.59	n.d.
Slovakia	0.79	0.66	0.65	0.64	0.58	0.79
UK	1.81	1.84	1.84	1.89	1.84	1.81
EU-15	*1.88*	*1.92*	*1.95*	*1.98*	*1.99*	*n. d.*
EU-25	*1.83*	*1.88*	*1.91*	*1.93*	*n. d.*	*n. d.*

Source: Eurostat 2004:188.

The participation of foreign companies in R&D expenditure can increase the financial resources available in national economies. In this respect, Hungary has the best position worldwide. For example, between 1996 and 1998, the share of foreign companies in corporate R&D expenditure in Hungary was almost 80%, followed by Ireland, at a little under 70%, Singapore (almost 60%) and Malaysia (almost 50%).

Among some of the countries participating in the Leonardo project, the share of foreign companies in corporate R&D expenditure are as follows: the UK: nearly 40%, France: 20% and Germany: less than 20% (Iwasaki, 2004, p.110.).

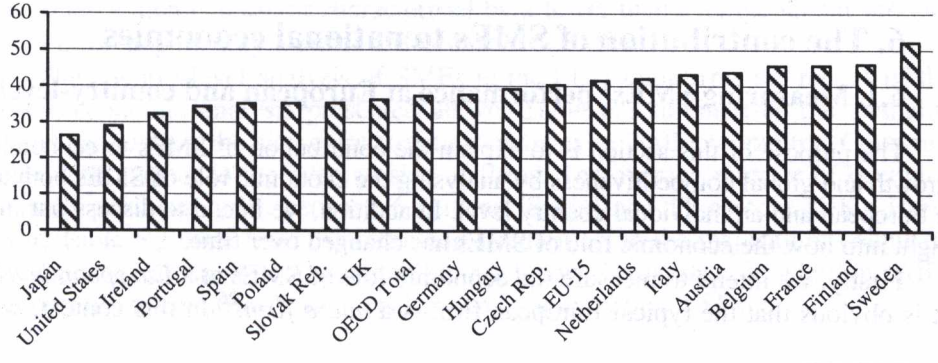
Table 5.9

Rank of order of countries in R&D expenditure (% of GDP)

Germany	2.50
Belgium	2.20
France	2.20
UK	1.90
Spain	1.00
Hungary	1.00
Poland	0.60
Slovakia	0.60
EU-15	2.00
EU-25	1.90

Source: Wim Kok 2004:48.

Beside total R&D expenditure, the distribution of ICT services in employment and its growth pattern are a good reflection of the present and future position of national economies, including the SME-sector, in the fast growing knowledge economy. Before presenting the data related to the distribution of ICT-service employment, it is necessary to present the share of IT-expenditure as a percentage of GDP. According to the latest international statistics (Eurostat 2004:191.), the position of the countries surveyed in the Leonardo project is illustrated in Figure 5.1.



Source: Eurostat 2004:188.

Figure 5.1. IT expenditure in 2003 (in % of GDP)

The highest expenditure was found in the UK (4%), followed by France (3.3%), Belgium, Germany (3–3%) and Hungary and Slovakia (2.8% and 2.7%). The lowest expenditure were registered in Poland (2.2%) and Spain (1.6%).

Evaluating the distribution of ICT-service employment, we can say that in the UE-25 member states – excluding Poland because of a lack of data – out of the total work force (cca. 180 million) 2.4 million (1.3%) were engaged in computer and related activities (NACE sector 72) and 11.3 million (6.3%) in other business activities. In total 7.6% of the European workforce is involved in these kinds of activities. (Huws U., Dahlmann S., Flecker J. 2004)

"... both activities show a similar distribution, with the highest proportions in the Nordic countries ... and more developed economies in northern Europe. The Mediterranean countries occupy an intermediate position, close to the EU-average, whilst the new Member States, along with Portugal, have below-average concentrations of ICT-service employment. (...) The picture is much as one would expect, with the highest proportions of both types of employment in the most developed economies." (Huws U., Dahlmann S., Flecker J. 2004:13)

We find a radically different pattern when we turn our attention to the growth rates of these sectors (NACE 72, NACE 74). The latest data show clearly that the strongest employment growth has taken place in those countries where the employment level in 2003 was the lowest: "In other words, while the new Member States may be behind the rest of Europe in the proportion of their economies devoted to ICT-services, they are catching up fast. The lowest growth rates are, by and large, in the most developed countries." (Huws U., Dahlmann S., Flecker J. 2004:14) In this context, we should note that the highest growth rates in employment in computer and related activities in Europe (2000–2003) were registered in such New Member States as Hungary and Slovakia, while in the case of employment growth in other business activities during the same time period, the highest growth rates were found again in Slovakia and Hungary.[25]

6. The contribution of SMEs to national economies

6.1. Measuring SMEs' performance at European and country-level

The purpose of this section is to explain the contribution of SMEs to economic growth and global competitiveness by analysing the economic role of SMEs both at a European and an individual country level. In addition, we intend to discuss our insight into how the economic role of SMEs has changed over time.

Firstly, we intend to measure the economic role of SMEs at a *European level.* It is obvious that the typical European firm is a *micro firm.*[26] In this context, we

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[25] In the case of employment growth in other business activities in Europe, exceptionally high growth was produced by the Czech economy.

[26] On 1st January 2005, a new European definition of SMEs came into force, which will be applied for all current and future EU measures in support of SMEs. The new definition raises the financial limits at which an enterprise ceases to qualify as an SME, and introduces new exceptions to the requirements for autonomy. The status of SMEs is determined by the following criteria: size: fewer than 250 employees (within this size category, the following sub-categories are distinguished: firms em-

wish to stress not only the dominance of SMEs in numerical terms, but also the significant amount and variety of work experience and economic activity which this sector represents. In the year of the latest available statistics for the EU-19 countries[27] (2003) there were 19 million enterprises providing employment for almost 140 million people. The vast majority (99.8%) of enterprises are SMEs. Large-scale enterprises (LSE) account for only 0.2% of all enterprises, providing jobs for about 42 million people (30% of the workforce) in 40,000 LSEs. We should note that in terms of size, the overwhelming majority of SMEs (over 90%) are micro firms, employing fewer than 10 persons. In this context, we should add that almost half of these micro firms have no employees at all, in other words they are family companies. The roughly 9 million of this kind of family companies only provide income to self-employed and family members. European firms on average provide employment for 7 people, the size of firms varying between 3 in micro firms and over 1,000 in LSEs.

The average European enterprises export 17% of their turnover; LSEs export 23%, while micro firms export only 9% of their turnover. This pattern of export characterises all sectors and industries and indicates that small and especially micro firms serve mainly local and regional markets. This pattern is especially true in the case of NMS countries participating in the Leonardo project and in the sectors belonging to the so-called Old Economy. Similarly to the pattern identified in the case of exports, labour productivity increases along with enterprise size. A person employed in a micro firm creates on average one third of the value-added (40,000 EUR) compared to someone working in an LSE (120,000 EUR).

However, when the distortion effect of the economic sector differences are eliminated (for example, micro and small firms function in large numbers in retail and trade which is a sector characterised by a lower than average labour productivity), we may identify a rather different role of SMEs.

The country-level analysis of SMEs in the EU-19 confirms the results of the macro-economic analysis presented above. Table 6.2 summarises the available statistical data on the size-class structure of firms in 2003 by country. Countries vary with respect to the average size of firms. The average number of occupied persons per firm varies between 6 persons (Spain) and 11 persons (UK). However, Table 6.2 underlines the following similarities: in the majority of countries, the labour productivity and profitability are below the average; in addition SMEs in most of the countries have a weaker export activity than LSEs.

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ploying less than 10 persons are micro firms, firms employing 10–49 persons belong to the subcategory of small firms and firms employing 50–249 persons are medium-sized firms) The firm must have an annual turnover not exceeding € 50 million or a balance sheet total not exceeding € 43 million, and must be autonomous. (*Source: SME Update*, June 2005:4.).

[27] The notion of EU-19 countries indicates the fifteen member states of the European Union plus Norway, Liechtenstein, Iceland (the European Economic Area) and Switzerland.

Table 6.1

The role of SMEs, Europe-19, 2003

		SME				LSE*	Total
		Micro	Small	Medium	Total		
Number of enterprises	1000	17 820	1 260	180	19 270	40	19 310
Employment	1000	55 040	24 280	18 100	97 420	42 300	139 710
Occupied persons per enterprise		3	19	98	5	1 052	7
Turnover per enterprise	1000 Euro	440	3 610	25 680	890	319 020	1 550
Value added per enterprise	1000 Euro	120	11 780	8 860	280	126 030	540
Share of export in turnover	%	9	13	17	12	23	17
Value added per occupied person	1000 Euro	40	60	90	55	120	75
Share of labour cost in value added	%	57	57	55	56	47	52

Estimated by EIM Business & Policy and Research; estimates based on Eurostat's Structural Business Statistics and Eurostat's SME Database; also based on European Economy, Supplement A, May 2003, and OECD: Economic Outlook, No. 71, June 2003; due to rounding, totals may differ slightly from constituent parts.

*LSE: Large-scale enterprises.

Source: Observatory of European SMEs (2004), p.28.

Table 6.2

Role of SMEs in European Countries, 2003

Country	Number of enterprises	Occupied persons per enterprise	Size-class dominance[1]	Value added per occupied person, SMEs[2]	Propensity to export, SMEs[3]	Share value added in turnover, SMEs[4]
	1 000				%	%
Belgium	440	7	micro	78	-3	-3
France	2 500	8	micro	76	-7	-4
Germany	3 020	10	large	90	-6	5
Spain	2 680	6	micro	82	-4	0
UK	2 230	11	large	69	-4	-5
Europe-19[5]	19 310	7	micro	74	-4	-4

[1] A country or sector of industry is said to be micro, small and medium-sized, or LSE dominant, if either micro enterprises, small and medium-sized enterprises (taken together) or large-scale enterprises have the largest share in total employment.

[2] Index, country total = 100.

[3] Share of export in turnover (%); SMEs minus country total.

[4] Value added as percentage of turnover, SMEs as deviation of country total.

[5] EU-15, Iceland, Lichtenstein, Norway, and Switzerland.

Source: Observatory of European SMEs 2004:29.

6.2. SMEs in the acceding (NMS) and candidate countries in comparison with the EU-19

The Observatory of European SMEs (2004) report was written before 1st May 2004. So, the term 'Acceding Countries' is used for the 10 New Member States (NMS) who joined the EU on 1st May 2004. The term 'Candidate Countries' was used for the present candidate countries, that is: Bulgaria, Romania and Turkey.

Prior to comparing the EU-19 and (at that time) Acceding and Candidate Countries participating in the Leonardo project, it is necessary to deal briefly with the radical shift represented by the transformation process from formerly state-owned large enterprises to the privately-owned diversified firm structure (composed of SMEs and LSEs). In this context, we should refer to the introduction of this report, in which the comparison of the size-structure of firms in the capitalist and the state-socialist economies was analysed (see Table 1.1). Comparing the first period of the transformation process of the 1990s with the new cycle of transformation in the New Member States dating from 2001, the following two phenomena must be stressed.

Firstly, during the first half of the 1990s and to a lesser extent in the second half of 1990s, the key role of the SMEs in Hungary, Poland and Slovakia partly offset the output- and job-losses in the privatised, large, state-owned enterprises. In the new cycle of the transformation process, there are changes in the driving forces behind the economic performance of SMEs in this region. The new challenge for the SME sector in the New Member States can be symbolised by the combination of cumulative innovation (e.g. improving technology with the use of ICT) and radical innovations (e.g. increased participation in such knowledge-intensive sectors as computer and related activities, knowledge-intensive services, etc.). In the former case, the drivers of development are conditioned by 'path-dependency'[28], whilst in the second case by the search of incremental path creation. The combination of the various development paths is reflected in the choice of the sectors selected for investigation. For example, the Old Economy sectors or traditional service activities (e.g. clothing industry, tourism, etc) were used to illustrate the path-dependency-based development and learning process of small firms. The various ICT-related sectors (e.g. software development, the new media sector, etc) were chosen to identify the characteristics of new types of SMEs engaged in New Economy activities.

Aware of these features of entrepreneurs in the New Member States, we tried to compare the basic economic indicators of SMEs in acceding (NMS) and candidate countries with those for EU-19 countries. The table below presents information with respect to the role of SMEs in these countries.

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[28] To the term 'path dependency' see more in Schienstock 2005:1–2.

Table 6.3

Roles of SMEs in Acceding and Candidate Countries and Europe-19[1]

		SME				LSE[1]	Total
		Micro	Small	Medium	Total		
Accession countries (2001)							
Enterprises	*1000*	56 470	230	50	5 950	10	5 970
Occupied persons	*1000*	10 210	4 970	5 350	20 530	10 150	30 670
Occupied persons/enterprise		2	22	107	3	919	5
Size-class dominance	Small/Medium-sized						
Europe							
Enterprises	*1000*	17 820	1 260	180	19 270	40	19 310
Occupied persons	*1000*	55 040	24 280	18 100	97 420	42 300	139 710
Occupied persons/enterprise		3	19	98	5	1 052	7
Size-class dominance	Micro						

[1] EU-15, Iceland, Lichtenstein, Norway, and Switzerland.

Source: Observatory of European SMEs 2004:31.

Globally, we may say that the average size of firms is higher in the EU-19 countries (7 persons) in comparison with Acceding (NMS) and Candidate Countries (5 persons). In connection with the size-structure, the following internal differences should be observed. In the EU-19 countries the average number (3 persons) of occupied persons per micro firms is higher than in the Acceding (NMS) and Candidate Countries (2 persons). In the case of small and medium-sized firms, the opposite pattern was identified: the larger average size of small (22 persons) and medium-sized (107 persons) firms in Acceding (NMS) and Candidate Countries in comparison with EU-19 countries (19 and 98 persons, respectively).

Table 6.4 illustrates the shares in employment of various size categories of firms between the two groups of countries analysed earlier. In the EU-19 group of countries almost two fifths of employment (39.4%) is created by micro firms, while one third of jobs can be found in the same size category in the Acceding (NMS) and Candidate Countries. In the case of small firms, we found only slight differences between the two groups of countries: 17.4% vs. 16%, respectively. However, in the size-category of medium- and large-scale enterprises, the share of jobs in both cases is higher in the Acceding (NMS) and Candidate Countries.

Size differences exist not only between the firms belonging to the two groups of countries evaluated above but also within these groups of countries. For example, within the group of EU-19 countries, the average firm size is relatively low in the case of Mediterranean countries. Within the NMS countries, the average firm size in terms of the number of employees in Hungary and Poland is around 4 but in Slovakia this indicator is twice as high (Observatory 2004:32).

Table 6.4

A comparison of employment share between EU-19 and Acceding (NMS) and Candidate Countries (%)

Size-category	EU-19 countries	Acceding (NMS) and Candidate Countries
Micro firms	39.4	33.0
Small firms	17.4	16.0
Medium-sized firms	13.0	17.5
Large sized firms	30.2	33.5
Total	100.0	100.0

Source: Own calculation based on the data of Table 6.3.

Table 6.5

Average enterprise size, Candidate Countries and Europe-19, 1995–1999

Country	1995	1999	Change 1995–1999
Hungary	9	4	-5
Poland	5	5	0
Slovak Republic	8	8	0
Total Candidate Countries	6	5	-1
EU-19	6	6	0

Source: Observatory for European SMEs 2002:15.

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Part III
LEGAL AND ADMINISTRATIVE ENVIRONMENT

The aim of this part is to provide a brief overview of the most important issues concerning the legal and administrative regulatory framework of SMEs in the participant countries. This part of the Report consists of two main sections. The first one provides a general overview about the legal environment of SMEs with an emphasis on different forms of legislation and on the characteristics of the entry procedures and costs.. The second section surveys the legal and administrative burdens of SMEs concerning the employment and working conditions.

7. General overview of the legal environment of SMEs

This part focuses on the regulatory environment of SMEs, since, as we stated before, one of the main competitive advantages of SMEs are their flexibility, though this may be strongly affected by their legal and financial environment. In other words the ability of SMEs to realize their economic and social objectives depends on the regulatory and policy environment within which they operate (ILO 2000). In a rapidly growing economy, the regulatory framework provides a stable and transparent environment for firms; that is, it stimulates investment, creates certainty in economic relations, promotes R&D and innovation, provides efficient product and financial markets and above all facilitates market entry and exit. (Wienert 1997).

There is no exact and generally accepted definition of what 'regulation' means. Roemer defines it as "when a government exerts control over the activity of individuals and firms" (Roemer 1993). From the point of view of SMEs it may be considered as a means of protecting and assisting small businesses[29]. This section

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[29] In addition there are approaches that distinguish between '*regulation*' and '*reglementation*'. In this perspective both concepts are interpreted as the regulatory framework for the behaviour of actors and/or firms, but while 'regulation' means such formal rules as laws and other technical (for example financial) regulations, 'reglementation' is defined as the entirety of social and cultural norms that influence human behaviour in a society and serve as 'balancing mechanisms' in order to maintain the various

focuses on the formal regulatory framework concerning creation, operation and dissolution of enterprises and the next sections will concentrate more on the social regulatory mechanism shaping the actors' behaviour in the SME sectors of the participant countries. As we have stated in the first chapter, the core aim of the research is to combine the analysis of the formal-institutional environment of SMEs and of the economic and social processes characterising the firms investigated.

Regulation of SMEs takes various forms – for various reasons. There hardly any aspects of the operation of firms which are not influenced by regulation. Governments can regulate market participation, production processes and the quality or other parameters of products and services produced in a very different ways. Based on the classification of Quartey (Quartey: 2001) we distinguished three main categories of regulation: economic, social and administrative.

(1) Economic or structural regulation is defined as "the tools which are often used by governments in order to influence the allocation of resources with the view to improving the efficiency of markets" (Quartey 2001:8.). It covers the following areas:

1. *Restrictions on entry to and exit from markets* such as administrative requirements for registering companies, permits and licensing laws, laws and regulations on legal forms of companies, business location and types of activities.

2. *Monetary and Credit Policies* include inflation and money supply policy, interest rate policy, and requirements on collateral and security, banking and financial intermediation laws.

3. *Trade Regulations* are the procedures concerning exports and imports.

(2) Social regulation refers to social conduct and is a tool used by governments to control the behaviour of firms in order to protect social rights and cohesion. It includes:

1. *Health and Safety regulations* covering all work place standards: market forces, direct regulations and incentives that aim to increase employees' safety.

2. *Control over labour contracts and employer-employee relationships:* These regulations comprise wage policy, labour legislation, the training system and employment issues. Labour regulations affecting SMES can be grouped in three main categories: minimum wages, non-wage compensations and job security guarantees.

(3) Administrative regulation is concerned with governments' efforts to collect, manage and appropriate revenues and property. It includes taxation, patent protection, copyright protection, trademark protection and bankruptcy laws.

In this section we focus on the description and comparison of some important elements of the regulatory frameworks presented above. This obviously implies a review of the legislative definitions of SMEs, the legal forms of companies, the administrative requirements, and the procedures and costs of establishing and dissolving firms in the participant countries. There are several theories that ques-

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forms of 'social reproduction'. (Makó-Simonyi 1992) We suppose that the use of unclarified and often overlapping terms gives rise to confusion which makes impossible to understand the real nature of social changes.

tion the convergence of national legal systems, stressing that the 'deep structures of law' (legal cultures, legal mentalities, etc) remain unique and cannot be transformed from country to country (Teubner 2004). In spite of this, to provide a general overview of the legal environment we use the 'cross-national' (comparative) approach in our description. We are presuming 'functional equivalence' between the various legal systems of the participant countries, without taking the broader social-institutional context into consideration.

7.1. Definition of SMEs

Since the SME sector is a heterogeneous economic and social unit, there is no standard, overall acceptable definition of small firms. According to an ILO study, more than 50 definitions were identified in 75 different countries (Potobsky 1992). The various classifications mainly take 'statistical' and economic' elements into account: the number of employees (size) and the economic performance of firms (turnover, profitability, net worth, etc). The next table provides a brief overview of the most important alternative definitions of SMEs.

Table 7.1

Alternative definitions of SMEs

Institution	Definition
World Bank since 1976	Firms with fixed assets (excluding land) less than US$ 250,000 in value are small scale enterprises
USAID in the 1990s	Firms with less than 50 employees and where at least half the output is sold
UNIDO's definition for Developing Countries	Large: firms with more than 100 workers
	Medium: firms with 20–99 workers
	Small: firms with 2–99 workers
	Micro: firms with less than 5 workers
UNIDO's definition for Industrialised Countries	Large: firms with more than 500 workers
	Medium: firms with 100–499 workers
	Small: firms with less than 99 workers
European Commision 2003	Medium: 49–250 employees and an annual turnover less than EUR 50m and/or an annual balance sheet total less than EUR 43m
	Small: 10–49 employees and an annual turnover and/or balance sheet total less than EUR 10m
	Micro: less than 10 employees and annual turnover and/or balance sheet total less than EUR 2m

Source: Quartey 2001:5 and Commission Recommendation of 6 May 2003.

The alternative definitions vary according to when and in which country they were formulated. The definition of the European Commission in force since 2003 is a recommendation for the central institutions and the member states of the EU.

According to this the individual member states regulate the operation of SMEs within the framework of their national legislation. There are countries where special laws concerning SMEs exist (Hungary), while others regulate this issue indirectly within economic laws (Poland, UK). In order to provide a brief overview Table 7.2 presents the various definitions of SMEs in those participant countries where such definitions exist.

Table 7.2

Definition of SMEs in the participant countries, 2005

Country	Size-category	Total stuff number	Annual turnover	Annual balance sheet total
Belgium	Medium	50–249		
	Small	10–49		
	Micro	0–9		
France	SME	less than 250	less than EUR 40m	less than EUR 27m
Germany	Medium:	49–250	less than EUR 50m	less than EUR 43m
	Small:	10–59	less than EUR 10m	less than EUR 10m
	Micro:	0–9	less than EUR 2m	
Hungary	Medium	50–249	Less than HUF equivalent to EUR 50m	HUF equivalent to EUR 43m
	Small	10–49	HUF equivalent to EUR 10m	HUF equivalent to EUR 10m
	Micro	0–9	HUF equivalent to EUR 2m	
Poland	Medium	50–250	PLN equivalent of EUR 40m	PLN equivalent of EUR 27m
	Small	less than 50	PLN equivalent of EUR 7m	PLN equivalent of EUR 5m
Slovakia	Medium	50–249		
	Small	10–49		
	Micro	0–9*		
Spain	Medium	50–249		
	Small	10–49		
	Micro	0–9		
UK	Medium	50–250	less than £11.2m	less than £5.6m
	Small	less than 50	less than £2.8m	less than £1.4m
EU	Medium	49–250	less than EUR 50m	less than EUR 43m
	Small	10–59	less than EUR 10m	less than EUR 10m
	Micro	0–9	less than EUR 2m	

* Except in the mining, electricity, manufacturing an construction sector.

Source: LEONARDO Project Research Reports.

The EU-25 member countries traditionally had their own definitions of SMEs; for instance Germany had a limit of 500 employees, while in Belgium it is 100. There is a clear intention within the EU to standardise the various national legislations on SMEs. As can be seen from the data presented above, some of the participant countries harmonised their legislation on the definition of small businesses in line with the EU recommendations (Germany, Hungary), while for others it remained within the framework of national traditions (Poland, UK).

Besides the number of employees and the economic performance the EU Recommendation takes the so-called independence or autonomy criterion into account, which is connected to the ownership-structure of SMEs. The EU terminology distinguishes "autonomous enterprises", "partner enterprises" and "linked enterprises" according the extent of independence enjoyed by enterprises. On 1 January 2005, a new common European definition of SMEs came into force. It raises the financial limits at which an enterprise ceases to qualify as an SME, and introduces new exceptions to the requirements for autonomy

7.2. Legislative/administrative procedures and costs of entry

As we have mentioned before, the regulatory environment has a crucial impact on both establishing and operating firms. On one hand, government regulation ensures a stable and calculable business environment, but on the other hand, a too high financial, administrative and social cost of bureaucratic burdens may act as barrier for the dynamics of operating SMEs. Table 7.3 presents the procedures and costs of establishing new enterprises in the participant countries.

Table 7.3

Entry procedures and costs in the participant countries, average 1998–99 (without Slovakia)

Country	Number of entry procedures	Entry cost (% of per capita GDP)
Belgium	8	9.98
France	15	14.30
Germany	10	15.69
Hungary	8	85.87
Poland	11	25.46
Spain	11	17.30
UK	5	1.43
Averages		
Western Europe	8.85	15.50
Transition countries	10.29	28.15
All countries	9.35	19.93

Source: Klapper – Laeven – Rajan 2004:40.

Both costs and the number of administrative procedures show a different picture in the various countries. There is a clear difference between the EU-15 and New Member States in terms of the administrative burdens placed on enterprises. The average number of bureaucratic processes and the average cost of establishing a company are lower in the western part of Europe than in the transition countries. The two endpoints of the scale are the United Kingdom with the lowest entry costs, and Hungary the most 'expensive' country. The diversity of entry costs in European countries draws attention to another aspect of this issue: in the globalising economic space it is not just the 'traditional' actors who compete, but also national governments, who compete in order to ensure a favourable regulatory environment for motivating both foreign and domestic investments.

Concerning the issues presented above there are two major dimensions of the national regulatory framework: stability and complexity. Frequent changes in regulations can cause great uncertainty, which makes it difficult for firms to make long-term decisions about entering markets, choosing production technologies, or hiring and training employees. On the other hand, an extremely complex regulatory environment may raise the entry and operational costs of enterprises dramatically. In the last decade a growing number of countries have been focusing on reducing the requirements for business registration and simplifying the administrative burdens of enterprises ('deregulation').This may involve using information technologies that allows on-line processing of regulatory approvals or the creation of 'one-shop-stop' systems (World Bank 2005).

8. Administrative burdens on SMEs: various fields of employment and working conditions

After giving a brief overview of the characteristics of the legal framework of SMEs we highlight another important aspect of the administrative burdens SMEs have to face; those related to the circumstances of employment, i.e. the recruitment of employees. As we mentioned earlier, SMEs have an important role in employment generation and stabilisation. However, if administrative burdens have a negative impact on SMEs' recruitment decisions, as the evidence indicates, their job creation potential cannot be fully exploited. The Joint Employment Report 2000 states that there is a growing consensus among EU-countries on the need to simplify the administrative burdens of enterprises (COM 2000). These efforts have strong political support in all Member States. The overview of the administrative burdens of SMEs presented above concentrated on the start-up process of enterprises. In the following we review the most important administrative barriers concerning the recruitment of employees.

BOX 8.1. Jobs and taxes: No easy choice in Germany

Germany's cumbersome hiring and firing policies may be such a big hump that even higher demand for labour would not be able to surmount it. Unlike 10 other European Union members, Germany still cannot break into the World Bank's top 20 for the easiest countries in which to do business in 2005. In the rankings last year for 'hiring and firing workers', Germany ranked well below the Organization for Economic Cooperation and Development's average in all four of the bank's categories: difficulty of hiring, rigidity of hours, difficulty of firing and firing costs. Across the categories, an average of 94 countries out of 144 rank above it.

German labour market

Germany has one of the tightest labour markets in the world, according to the World Bank. Indexes from 0 to 100, higher values indicate more rigid regulation.

	Germany	Average of high-income OECD countries*	Number of countries that scored lower than Germany
Difficult of Hiring Index	44	26	87
Rigidity of Hours Index	80	56	106
Difficulty of Firing Index	40	26	69
Firing Costs (weeks of wages)	80	40	102

**As defined by the World Bank out of a list of 145 countries*

Source: Altman 2005:12.

Although nobody questions the importance of administrative burdens in the creation and operation of SMEs there is no generally accepted definition of this category. Administrative burdens are mainly described as an extensive paperwork and administrative formalities by which governments collect information and intervene in individual economic decisions (OECD 2000). In terms of administrative burdens related to the recruitment of employees there are two main aspects to emphasize. The first concerns the number and nature of administrative procedures, and the second is associated with employment regulations employers have to be aware of if they want to recruit new employees. On the basis of these two dimensions the definition of administrative burdens dealing with recruiting new employees can be formulated as follows.

Administrative burdens are:

The number and nature of the obligatory administrative procedures entrepreneurs have to go through in the recruitment process including obligatory contacts with authorities, 'form filling' and delivery of the requested information to the respective authorities;

The preparatory work and information collection; as entrepreneurs first have to find out which specific regulations are relevant for their individual case, they have to understand these norms and they have to work out which precise actions are demanded from them. (Observatory 2002:11)

The results of the 2001 ENRS Survey on SMEs[30] suggest that larger enterprises complained considerably more often than smaller firms on the increase in administrative burdens between 1997 and 2001. The share of companies indicating an increase in administrative burdens rises steadily with enterprise size.

Table 8.1

Enterprise owners' perception of the development of administrative burdens resulting from employment regulations since 1997, by enterprise size, Europe-19*, 2001 (in %)

	Number of employees					
	0	**1**	**2–9**	**10–49**	**50–249**	**Total**
Increase	42	51	69	75	80	64
Decrease	4	2	3	2	1	3
No change	27	31	21	18	15	23
Don't know/No answer	27	16	7	5	3	10
Total	100	100	100	100	100	100

*EU-15, Iceland, Lichtenstein, Norway, and Switzerland

Source: Observatory 2002:17.

In Europe, on average, 3.3 administrative procedures have to be gone through when recruiting the first employee (Outlook 2002). The form, content and costs of the administrative procedures related to employment are different in the various European countries. For example in Germany or in the UK employers have go through administrative procedures either before or after hiring a newly recruited employee, while in Belgium, France or Spain the recruitment process covers both time periods.

Box 8.2. Licensed Employers' Social-Accounting Secretariats in Belgium

In Belgium, administrative procedures are rather complex. Apart from the six obligatory for all first-time employers, there is a considerable number of additional procedures that apply only to certain groups of employers, e.g. those employing manual workers or those operating in specific economic sectors. In order to cope more easily with employment-related administrative obligations, most Belgian SMEs have joined a licensed Employers' Social-Accounting Secretariat. These private non-profit organisations execute the complete wage and personnel management for their member enterprises (e.g. administrative procedures in the recruitment process, calculation of wages and social security contributions, withholding taxes on wages, undertaking the respective /monthly, quarterly or yearly/ declarations, etc.).

The use of specialised services provided by these Social-Accounting Secretariats is so widespread in Belgium that very few SMEs do this job themselves. So, Belgian employers are significantly relieved from performing these complex administrative tasks themselves, however, they have to bear the *costs* of outsourcing them.

Source: Small Business Research Institute K.U. Brussels

[30] The ENRS Survey on SMEs was carried out in the framework of the Observatory of European SMEs in 2001, among more than 7,600 SMEs across Europe.

Another aspect of the recruitment procedures is the number of institutions to be contacted, which again varies from country to country.

Table 8.2

Obligatory institutions to contact when recruiting the firs employee

Country	Social Insurance Office	Tax Authority	Employment Office	Accident Insurance	Pension Scheme	Other	Total
Belgium	X			X		X X X	5
France	X		X		X	X	4
Germany	X		X	X			3
Spain	X		X			X	3
UK		X				X	2

Source: Observatory 2002:24.

In spite of these national differences in the institutional context, the social insurance offices and/or the tax authorities represent the key institutions in the recruitments process. In all European countries two institutions at least have to be contacted when employing new workers and, in addition, they often play an important coordinating role within the recruitment process.

In some countries social security institutions or tax authorities function *de facto* as one-stop-shops in terms of social security matters. A good example of this is the URSAFF (Union de Recouvrement de Sécurité Sociale et d'Allocation Familiales) in France, which is an institution collecting the social security and family allowances contributions.

Box 8.3. URSSAFF: a French Social Security Institution

Since June 1998, French employers have to complete just one single document (Declaration Unique d'Embauche – DUE: Single Recruitment Declaration) with a time requirement of approximately ten minutes. This Single Recruitment Declaration has to be sent to the URSSAF institution within the week before the newly recruited employee starts work.

The URSSAF collects all obligatory information and then submits the relevant documents the other institutions that are involved. Thereby, up to nine formalities can be carried out in one single step, thus, significantly reducing administrative burdens on employers. In adition, the registration process is simplified by the use of e-government. The form for the Single Recruiting Declaration can be downloaded (www.due.fr) and returned via the Internet or alternatively sent via MINITEL, by fax or by registered letter.

Source: Association pour la Pormotion et le Dévelopement Industriel (APRODI).

There are other countries as well, where similar institutions have been set up. In Germany for example the health insurance fund offices have been established as one-stop-shops for all notifications to social security institutions. That means

German entrepreneurs have to contact only one official institution, which automatically transfers all relevant information to other concerned public authorities.

In relation to the second aspect of the definition of administrative burdens presented above, i.e. the complexity of employment regulations, in the 2001 ENRS Survey on SMEs, enterprise owners were asked to identify one single field of employment regulation which imposes the highest administrative burdens on them.

Table 8.3

Fields of employment regulation with highest administrative burden, by enterprise size, Europe-19, 2001 (in %)

	Number of employees					
	0	**1**	**2–9**	**10–49**	**50–249**	**Total**
Health and safety protection for workers	12	22	34	38	40	30
Social security and pension requirements	13	14	15	10	9	14
Employment related taxes	10	10	13	14	11	12
Restriction on working hours	2	5	7	7	6	6
Sector-specific requirements	5	5	5	7	4	5
Dismissal law	0	2	4	6	7	4
Employment contracts	2	2	4	3	4	3
Collective bargaining	1	1	2	2	3	2
Worker participation law	1	1	1	1	3	1
Don't know/No answer	54	38	15	12	13	23
Total	100	100	100	100	100	100

Source: The 2001 ENRS Survey on SMEs.

According to the results of the Survey health and safety regulations are on of the most regulated fields of employment as the most important field – particularly for firms operating in manufacturing and construction sector. Interestingly a large number of micro enterprises cannot name a single regulatory field that imposes the highest administrative burdens on them.

An international survey highlighted another crucial aspect of administrative burdens and stressed that law enforcement plays an important role in the operation of the labour market (Bertola et al. 2000). According to the study, jurisprudence seems to be very important and not only the strictness of the regulations in themselves. The vague legal definitions of unfair dismissal provide the courts room to interpret regulations, which is considered to be an important reason for the large number of cases brought to the courts in France, Germany and Spain. The same study indicates that the outcomes of legal labour disputes are not independent of external factors such as the cyclical and regional labour market situation or the density rates of trade unions. Empirical data from Germany and Spain show that courts protect employees far more against dismissals during cyclical downturns than in booming labour market conditions.

Another aspect of administrative burdens related to employment-related regulations applies if the size of the firm exceeds a specific threshold. For example smaller sized enterprises are exempted from certain legal obligations as long as the number of their employees remains below the defined threshold. These thresholds are mainly applied in the fields of collective representation (work councils), health and safety, dismissal protection and disability law.

Table 8.4

Thresholds in employment related legislation, Europe-19, 2001

Country	Worker representation	Health and safety	Dismissal protection	Disability law
Belgium	X			
France	X	X	X	X
Germany	X	X	X	X
Spain	X	X		X
UK	X	X	X	X

Source: Observatory 2002:37.

In summarising it can be stated, that the administrative burdens mainly result from the complexity of the employment legislation. In a large number of European countries administrative burdens in themselves seem not to be particularly high. Contrary, administrative burdens on SMEs represent collecting and interpreting the obligatory information in the complex and often obscure regulatory environment (Outlook 2002).

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Part IV

FINANCIAL FRAMEWORK AND SMEs

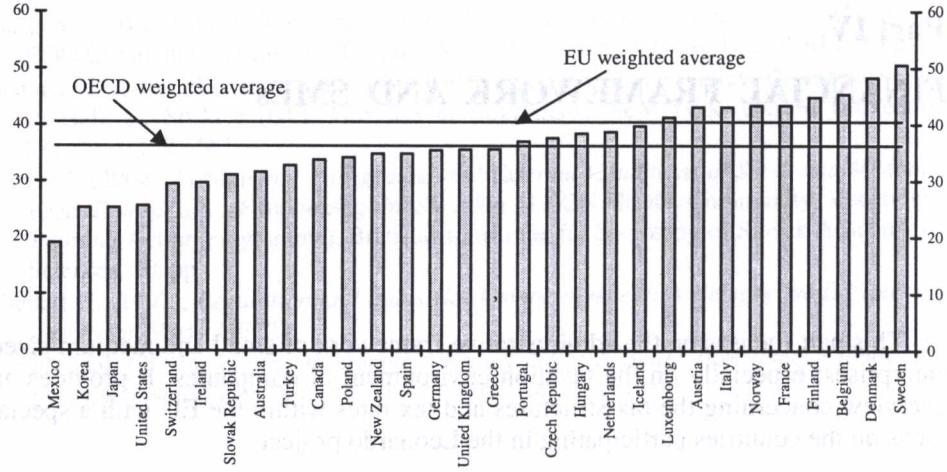
This part focuses on the administrative framework of small and medium-sized enterprises; especially on the taxation environment of companies. It provides an overview concerning the tax structures and tax rates within the EU with a special focus on the countries participating in the Leonardo project.

9. Tax rates and structures

Tax policies shaping tax rates and structures depend on various economic, social, political and historical factors. The structure and extent of public expenditure determines the structure of national tax systems, yet the political and social considerations underlying the individual tax policies vary country by country. The different size and composition of public spending are reflected in different government financing needs which may lead to significant differences in national tax systems.

In the last few years however there have been several efforts carried out in order to harmonize the national tax systems at European level. For example from the mid1990s, the free movement of capital, the elimination of customs controls, the introduction of the Euro and the development of information and communication technologies have contributed to the increase in the mobility of tax bases in Europe. However the recent crisis of Lisbon strategy call the attention to the lack of integration not only in the field of product market, employment relations (e.g. degree of employment protection for permanent workers), but "... labour market and tax or welfare reforms, the evidence does not suggest tight coordination either." (Pisani-Ferry J. 2005:8.) The growing importance of international competition also forced European governments to raise public sector efficiency and achieve a double goal: lower taxes and better public services. Another incentive behind the tax harmonization efforts was the intention to reduce tax avoidance and evasion. On the other hand evidence shows that these efforts have resulted in the lowering of tax burdens on highly mobile production factors and a higher tax pressure on the less mobile ones, in particular labour (Joumard 2001).

Figure 9.1 shows the general extent of tax burdens illustrated by the *tax revenues* in terms of GDP ratio in the OECD countries.



Note: EU-15 area countries are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom

1. In France from 1992, the total tax revenue has been reduced by the amount of the capital transfer that represents uncollected taxes.

2. Unified Germany beginning in 1991. Starting 2001, Germany has revised its treatment of non-wastable tax credits in the r eporting of revenues to bring it into line with the OECD guidelines.

Source: OECD 2005:4.

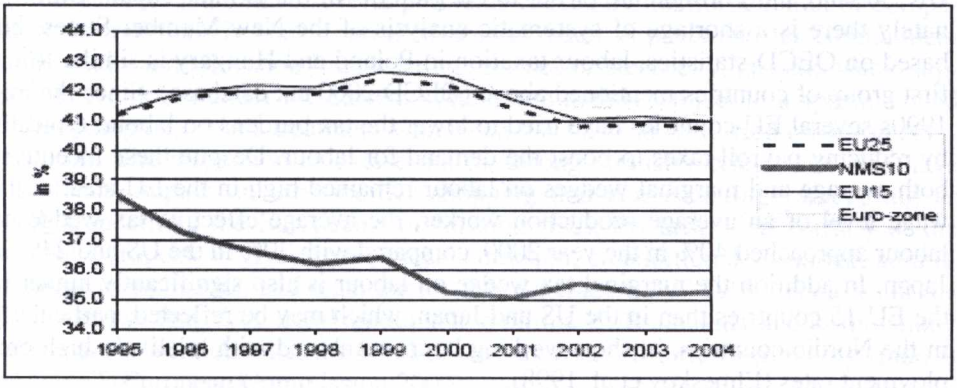
Figure 9.1. Tax to GDP ratio in OECD countries 2003

Comparing the extent of tax burdens it can be stated that tax rates in the European area are higher than in most other OECD-countries. The EU-19 average defined in the tax-to-GDP ratio was 39.4% in 2003, more than 10 points higher than in Japan or in the United States. Concerning the tax rates there are clear differences between the various European countries. Tax burdens are relatively low in Ireland, Portugal and Spain; the UK, Greece, Germany, Poland and Hungary stand somewhere in the middle. The Nordic welfare states (Finland, Denmark, and Sweden), Austria, Italy, France and Belgium represent the highest tax rates in ratio to GDP.

In order to highlight not just the quantitative but the structural differences between the various tax systems, it is worth overviewing the different so-called 'tax-mixes' in the OECD countries. On of the most important distinctive features of tax systems in the EU-15 compared to the US and Japan is the relatively high proportion of social contributions, consumption and environmentally-related taxes, and on the other hand, the lower share of corporate income and property taxes, except in the UK and France. Income redistribution is a key objective in Europe, though the progressivity of the personal income tax rates is often weak-

ened by a large scale of tax allowances and tax credits, which mainly benefit high income groups (Joumard 2001).

Having a look at the trend over the years 1995–2004 concerning the *tax revenue* paid to the various governments within the European Union, it can be seen that from 2000 it fell significantly (See Figure 9.2!).



Source: Eurostat; Statistics in focus 2/2006.

Figure 9.2. Total tax revenue in the EU as a percentage of GDP, 1995–2004

The trend of the Euro-zone follows quite closely that of EU-25, but a rather different pattern can be observed in the case of the 10 New Member States (NMS). In these countries taxes are generally lower than in the EU-15. In addition in the NMS a radical fall in government tax revenue as a percentage of GDP occurred between 1995 and 1999, after which there has been only minor changes. (Eurostat 2006) The main reasons of the differences between tax revenues of the various European governments are in the different performance of the national economies and the in the different tax policies and legislation (both components of the taxation system have a delayed impact on the tax revenues).

Box 9.1. Differences between European tax burdens

Differences between the effective tax burdens in the EU Member States may be important for two reasons. First, differences in effective tax rates faced by companies located in different countries, but competing in the same market, may affect their international competitiveness: two different companies, competing in the same market, may face two different tax rates. Second, when multinational companies face only the tax rate of the country where the activity takes place then differences in the effective tax rates between countries could also affect the location choice of individual activities. This can occur either as a result of the provisions of international tax codes, for example when the repatriation of profits by way of dividend from a subsidiary to a parent results in no further taxation because the dividend is exempt, or as a result of tax planning. A multinational company may therefore face different tax rates, depending on where its activities are located. As indicated, this economic reasoning is based on purely tax considerations and cannot, on its own, explain the actual behaviour of companies.

Source: European Commission 2001.

9.1. Tax on labour

As we have stated above, the average effective tax rate on labour in the EU-15 in 1998 was about 15% higher than in the US and Japan. Austria, Belgium, France, Italy and the Nordic countries tax labour income most heavily, whilst the UK, Ireland and Portugal are closer to the patterns of the US and Japan. Unfortunately there is a shortage of systematic analysis of the New Member States, but based on OECD-statistics, labour taxation in Poland and Hungary is similar to the first group of countries mentioned above (OECD 2000 tax database). Since the mid 1990s several EU-countries have tried to lower the tax burdens on labour, typically by reducing payroll taxes to boost the demand for labour. Despite these incentives both average and marginal wedges on labour remained high in the EU-area: at the wage level of an average production worker, the average effective tax wedge on labour approached 40% in the year 2000, compared with 30% in the US and 24% in Japan. In addition the marginal tax wedge on labour is also significantly higher in the EU-15 countries than in the US and Japan, which may be reflected, particularly in the Nordic countries, in short working hours combined with relatively high employment rates (Elmeskov et al. 1998).

9.2. Indirect taxes: VAT

Compared to the US, Japan and the other OECD-countries, it can be stated that effective tax rates on consumption are relatively high in the EU, too. This fact is reflected not only in the high tax to GDP ratio, but also the relatively high proportion of consumption-based taxes in the European tax-structures. Among consumption-based taxes VAT plays a dominant role: in 1998 VAT accounted for about 60% of total tax revenues on goods and services in the EU-area (OECD 2000).

The relatively high proportion of VAT within the European tax mix has various advantages. From the point of view of economic effectiveness, tax systems must be 'neutral' in terms of economic choices. Among others considerations, VAT (like other consumption taxes) is relatively neutral towards saving and investments; as long as it is based on the destination principle, it does not discriminate between imports and local products and does not affect external competitiveness. The countries of the European Community agreed in 1967 to establish a harmonized VAT system, in order to create the basis of the single market. However the European countries have not been able to harmonize their VAT systems up till now, the current situation can be characterised by a fair degree of standardization, with two categories of rates, and minimal standard and reduced rates fixed at the EU level. At the same time, many EU countries have differentiated (reduced) VAT rates and exemptions, since the European Community law allows a certain number of derogations and special schemes.

The lack of uniformity in the implementation of EC Directives on VAT has on the other hand, several negative consequences, as well. The cross-European

VAT rate differentiation may induce direct revenue losses and may lower VAT efficiency indirectly by increasing the complexity of the VAT system, making it difficult to assess and monitor the degree of tax compliance. In addition the complex and non-transparent system of derogations and exemption my distort competition and consumption patterns within and between EU-countries. (For example, in recent years there have several problems caused by the introduction of competition in traditionally state-controlled sectors, such as posts and telecommunications, radio and television broadcasting services or electricity, gas and water supply. These areas, under the current system, are mainly subject to a special – and rather complex – VAT treatment which can have a clear distortion effect on competition). The dispersion of excise duties, through transfer prices, can also have significant impact on cross-border shopping and can encourage smuggling as well. Concerning the European Commission (EC), the lack of uniformity of the current European VAT system creates confusion, an additional workload, administrative complication and legal uncertainty for traders (EC 1999). As a result the EC estimates that VAT fraud amounts to 8 billion EUR annually and as they note: "*there are indications that the level of serious fraud in intra-Community trade is* growing" (European Commission 2000).

9.3. Corporate income tax

Company income tax rates in most European countries are significantly lower than in the other OECD-countries. This relatively low proportion of the corporate income tax within the tax structure by international standards originates in various factors. Among these are large differences in accountancy rules that firms must comply with and the relatively low percentage of incorporated firms. In addition the large and complex system of tax relief also plays an important role in the practice of European corporate taxation. These reliefs mainly cover the following areas: investment tax credits, accelerated depreciation allowances for investments in equipment goods and in intangible assets (e.g. R&D), tax breaks for employment creation and tax incentives for depressed areas (European Commission 2001). In some EU-countries investments tax credits are combined with depreciation rates higher than economic depreciation, which can cause a bias in favour of capital intensive activities. In addition many countries have introduced tax measures in order to favour SMEs, newly created firms and/or information technology companies (e.g. France, Netherlands, Portugal, Spain and the UK). These measures are designated to offset the disadvantages of the targeted enterprises in financing their investments and/or disproportionate costs stemming from administrative complexities, including tax compliance (OECD 2001).

In several cases tax allowances are introduced in order to attract multinational investments. Some European countries have introduced special tax measures to encourage foreign direct investments in specific geographical areas or activities (e.g. Ireland has applied a reduced corporate tax rate for manufacturing and some internationally traded services, in Greece off-shore and shipping companies are

exempt, and in Spain the Basque country granted large tax privileges for fixed-assets investment above a certain amount). In addition, in some countries there are special holding-company schemes and co-ordination centres, which allow international investment income to flow through those companies at a low tax rate (e.g. Belgium, Denmark, Finland, Germany, Greece and the Netherlands). In 1997, the EU agreed to introduce a Code on business taxation, in order to avoid harmful tax competition between European countries. The generally accepted Code, however, does not contain legally binding obligations or sanctions; it simply serves as a guide.

Box 9.2. Favouring SMEs in company taxation

In the United Kingdom, to help small companies, a 10 percent starting rate was introduced in April 2000 to companies with taxable profits below £ 10,000. A 20 per cent rate is also applied for companies with taxable profits between £ 50,000 and £ 300,000 (the 'normal' corporate income tax rate, i.e. paid by companies with profits above £ 1.5 million, is 30 per cent). In addition, the Budget 2000 introduced an enhanced relief for SMEs for R&D spending. From April 2000, SMEs are entitled to claim 150 per cent of their qualifying expenditure on R&D. In France, full and partial exemptions are granted to companies created between 1995 and 2004 if certain conditions concerning the type and location of the activity are satisfied.

Source: Freedman – Ward 2000.

Box 9.3. Company taxation and globalisation

The following figures illustrate that companies increasingly operate, in various facets, on a multinational scale. Tax administrations however broadly continue to operate on a national scale.

The number of multinational enterprises has increased from some 7,000 parent firms in 15 developed (EU and non-EU) countries at the end of the 1960s to some 40,000 at the end of the 1990s. There are now approximately 63,000 parent firms and 690,000 foreign affiliates operating world-wide.

Accordingly, international production, trade and investment have increased significantly. Sales of foreign affiliates worldwide accounted for an estimated $13.6 trillion in 1999, compared to about $2.5 trillion in 1980, a figure twice as high as that of global exports. Multinational enterprises now account for about one-tenth of global GDP, compared to one-twentieth in 1982.

This corresponds to a broad increase in foreign direct investment (FDI). The ratio of world FDI inflows ($865 billion in 1999) to gross domestic capital formation is now 14%, compared to 2% twenty years ago. In the same period, the ratio of world FDI stock to world GDP increased from 5% to 16%.

At the same time, both the number and the value of mergers and acquisitions have increased significantly. The value of all mergers and acquisitions (cross-border and domestic) as a share of world GDP has risen from 0.3% in 1980 to 8% in 1999 while the value of completed cross-border mergers and acquisitions rose from less than $100 billion in 1987 to $720 billion in 1999. The total number of all mergers and acquisitions world-wide has grown at 42% annually between 1980 and 1999.

Source: European Commission 2001:21.

9.4. Description, evaluation and comparison of the tax systems in the countries participating in the Leonardo Project

Comparing the various elements of tax systems, significant differences can be found concerning both in the structures and rates. The following table shows the differences between the Leonardo-countries in respect of the three main components of government tax revenues: (1) taxes on production and import, (2) current taxes on income, wealth, etc. (covering taxes both on individual or household income and the income or profits of corporations, including holding gains) and (3) actual social contributions.

Table 9.1

Breakdown of tax revenue in the Leonardo countries and by main tax categories, 2005

Country	Taxes on production and import	Current taxes on income[1]	Actual social contributions[2]	Imputed social contributions[3]	Capital transfers[4]	Total
EU-25	13,8	12,5	13,1	:	0,1	*39,5*
EU-15	13,8	12,8	13,1	1,1	0,1	*40,9*
NMS-10	14,0	7,9	13,4	:	0,2	*35,5*
Belgium	13,6	16,8	14,1	2,2	:	*46,7*
France	15,7	11,1	16,3	1,8	0,1	*45,0*
Germany	12,0	10,0	16,8	1,0	:	*38,9*
Hungary	16,3	9,2	13,5	0,1	:	*39,1*
Poland	13,9	6,7	14,0	:	0,4	*35,0*
Slovakia	12,7	6,1	12,3	0,1	0,7	*31,9*
Spain	12,2	10,2	12,2	0,8	0,5	*35,9*
UK	13,6	15,6	7,7	0,6	0,0	*37,5*

[1] Current taxes on income, wealth, etc. cover both individual or household income and the income or profits of corporations, including holding gains.

[2] Actual social contributions cover compulsory and voluntary contributions paid to government (mainly into social security founds) by employees, employers, the self-employed and non-employed.

[3] Imputed social contributions represent in the national accounts system the counterpart of unfunded social benefits provided by the government as employer.

[4] Capital transfers cover the transfers from general government to other sectors of the economy, representing taxes and contributions assessed but unlikely to be collected, has to be deducted from tax revenue.

Source: Eurostat Statistics in focus – Economy and finance – 2/2006:4.

The level of revenue from taxes on production and income is highest in Hungary, at 16,3 of their respective GDP, and Germany represents the lowest level by 12%. Revenue from taxes on income and other current taxes varies between 16,1% represented by Belgium and 6,1%, collected in Slovakia. Revenue from actual

social contributions covering compulsory and voluntary contributions paid to governments by employees, employers, the self-employed and none-employed was the lowest in the UK at 7,7% with respect to GDP, and the highest in Germany at 16,8%. Based on the data presented above it can be stated that there are significant differences between the EU-15 and the NMS-10 which can be attributed to the relative low level of the current taxes on income and wealth in the second country group. On the other hand the EU-15 countries (Old Members States) cannot be handled as a homogenous group, since there quite large differences within these countries in terms of structure of government tax revenue.

As for personal income tax (PIT), there are quite large differences among the countries participating in the project. Table 9.2 presents the PIT rates in the eight participant countries surveyed.

Table 9.2

Personal income tax rates in the participant countries

Country	Income (Euro)	Tax (%)
France	0–4262	0
	4262–8382	6,83
	8382–14 753	19,14
	14 753–23 888	28,26
	23 888–38 868	37,38
	38 868–47 932	42,62
	47 932-	48,09
Germany	0–7236	0
	7236–9251	19,96–23,02
	9251–55 007	23,02–48,50
	55 007-	48,5
Hungary	0–3189	16
	3189–5979	26
	5979-	38
Poland	0–8257	19
	8257–16 513	30
	16 513	40
Slovakia	0-	19
Spain	0–4000	9,06
	4000–13 800	15,84
	13 800–25 800	18,68
	25 800–45 000	24,71
	45 000-	29,19
UK	0–3036	0
	3036–47 200	20
	47 200	25

Source: IBDF Tax Travel Companions, The EU Accession States Tax Memo, European Tax Handbook 2003, PWC.

Excluding Slovakia with a flat tax rate (linear taxation), personal income tax is progressive in all countries. There are differences concerning the number of tax brackets and the lowest taxable income. In Spain and France, the system is quite complex, having several brackets, and Hungary levies personal incomes most heavily, since, uniquely in the EU, the average income is taxed at the highest personal income tax rate (38%). On the other hand the corporate income tax rate in Hungary is one of the lowest in the EU; therefore the average tax burden in ratio to GDP is about average in Europe.

Table 9.3

Income tax plus employees' and employers' social security contributions (as % of labour costs), 2005

Country	Total Tax Wedge[1]	Income Tax	Social security contributions		Labour costs[3]
			Employee	Employer[2]	
Belgium	55,4	21,4	10,7	23,3	53 581
France	50,1	10,8	9,6	29,7	47 824
Germany	51,8	17,3	17,3	17,3	53 278
Hungary	50,5	14,3	10,0	26,3	18 559
Poland	43,6	5,3	21,3	17,0	19 548
Slovakia	38,3	6,9	10,6	20,8	15 748
Spain	39,0	10,7	4,9	23,4	34 545
UK	33,5	15,7	8,2	9,6	50 982
OECD	37,3	13,3	8,8	15,2	36 205
EU-15	42,1	14,2	10,0	17,8	42 317

[1] Single persons without children at the income level of the average worker.
[2] In the case of Hungary payroll taxes plus employees social contributions.
[3] Labour costs in US dollars using Purchasing Power Parity (PPP).

Source: OECD, 2006:5.

Having a look at the data in Table 9.3, it can be stated that there are slightly great differences between the various Leonardo-countries with respect to both labour costs and the structure of total tax wedge on labour. Relatively large labour tax burdens can be observed in Belgium, Germany, Hungary and France, but the composition of tax wedge in these countries is quite different. However the lowest burden on labour has to be paid in the UK, the Slovak Republic represents the lowest labour costs.

The structure of corporate income taxes (CIT) in the participant countries is less complex than in the case of PIT. The nominal tax rates are everywhere under 40%, but there are no tax brackets. In order to avoid internal tax competition, some large EU-countries initiated the introduction of a minimum standard corporate income tax level of 20%. The total tax burden is the lowest in Slovakia and in the UK and the highest in Belgium and France.

Table 9.4

Corporate tax burdens in the participant countries

Country	Total corporate tax burdens in share of GDP (%)*	Nominal tax rates (%)	
		Corporate tax	Local tax
Belgium	46,6	34	
France (a)	44,2	33,3	1,5–4
Germany	40,2	25	
Hungary	38,8	16	2
Poland	39,1	19	
Slovakia	33,0	19	
Spain (b)	36,2	35	
UK	35,8	30	
EU-25	*40,4*	*26,3*	

** Contains all taxes and contributions (personal income tax, corporate income tax, VAT, local taxes).*

(a) In France the real rate of the local tax depends on the local governments' decision.

(b) In Spain local tax is levied on taxable profits above EUR 1 million, depending on the firms' activity and location. The maximum amount of local taxes cannot exceed 15% of the annual net revenue of the firm.

Source: IBDF Tax Travel Companions, The EU Accession States Tax Memo, European Tax Handbook 2003.

The taxation on consumption is far from being simple and transparent. The standard VAT rates in the participant countries vary between 16 and 25%, but – except for Slovakia with only one bracket – every country applies a complex system of exceptions and allowances concerning various activities.

Table 9.5

VAT rates in the participant countries

Country	Super Reduced Rate	Reduced Rate	Standard Rate	Parking Rate
Belgium		6	21	12
France	2,1	5,5	19,6	
Germany		7	16	
Hungary		5 or 15	25	
Poland	3	7	22	
Slovakia			19	
Spain	4	7	16	
UK		5	17,5	

Source: European Commission 2005:3.

Evaluating and comparing different taxation regimes without taking into account the broader economic and social context is extremely difficult. The European Commission provides some general principles of taxation which can serve as a basis for a comparative perspective. There are three main requirements which

can characterise a tax system and strongly influence the economic actors' decisions and behaviour: *simplicity, certainty and transparency.*

Within the framework of this study we cannot undertake to analyse the tax regimes in the participating countries systematically. However, in terms of the abovementioned requirements, we can state, that the Old and the New Member States have to face different problems concerning the taxation environment of enterprises. Evidence, however, suggests that tax systems in Europe are complex, which gives rise to high costs, both for the tax administration and for tax payers. There are economic and political reasons why a tax system can be complex. Sometimes governments take measures on an ad hoc basis without taking into consideration how they may interact with other parts of the tax system or with other policy objectives. One paradoxical measure is, for instance, when a tax credit is introduced for those on low-incomes to encourage them to take out complementary health insurance schemes, and at the same time, these schemes are subject to a specific insurance tax. Concerning company taxation, there are a number of specific reliefs and allowances which can make the systems quite complex and the large number of small taxes, which are simply inherited from the past without providing large revenue for government, may also increase complexity (Leibfritz – O'Brien 2005).

Another specific problem, first of all in the post-socialist economies, is the uncertain character of the taxation system. The transition of the taxation regimes in these countries was extremely fast and this is reflected in its fragmented nature and in the continual changes in taxation rules. Furthermore, complexity and uncertainty can be increased by the operation of the tax administration, e.g. by the complexity of various levels of government and public institutions which are entitled to collect their own taxes with a different tax base (fragmentation or concentration).

Box 9.4. The fragmented French tax administration

Tax administration is also more fragmented in France than in most other countries. Within the Finance Ministry there are significant organisational divisions between the different tax functions (Direction Générale and Direction Générale des Impôts, DGI) and there are also two separate administrations for calculating tax liabilities (mostly by the DGI) and for tax collection (mostly by the Direction Générale de la Comptabilité Publique, DGCP). Social security contributions are collected and administered separately by a number of different agencies. Also, France is one of the few OECD countries which does not have a withholding tax system, or deduction at source, for the income tax on wages and salaries; social security contributions are deducted at source, however. While since 2002, income tax payers can file and pay taxes online on the websites created to this end, for those who are unable or unwilling to use this new technology the procedure is more cumbersome. The self-assessment of wage income also leads to a significant time lag between income and tax payments. People who are newly unemployed can find themselves still having to pay income tax on the previous year's income; this delay also makes measures that make use of income tax incentives less likely to be effective, at least in the short run, and to increase the deadweight losses associated with them. Simplifying the tax system and rationalising tax collection would certainly help reduce administrative costs. Introducing a withholding system for the wage tax would probably meet some resistance from the business sector, although it should not be too costly for firms as these are already withholding social security contributions.

Source: Leibfritz – O'Brian 2005, p. 33.

In terms of complexity, international comparison is difficult, because of institutional diversity, but the various costs related to collecting taxes can serve as a proxy indicator. Table 9.6 provides some basic indicators concerning the efficiency of the tax administration in the participant countries.

Table 9.6

Indicators of administrative costs in tax revenue collection and tax arrears in the participating countries

Country	Administrative costs as a % of collected revenue (2002)	Number of citizens per full-time staff (2003)	Number of employees per full-time staff (2003)	Reported gross tax arrears as a % of net tax collections (2003)
Belgium	1,00	476	207	14,6
France	1,44	788	358	16,1
Germany		665	324	2,6
Hungary	1,35	768	309	
Poland	1,32	751	339	8,6
Slovakia	1,46	929	458	39,7
Spain	0,78	1680	745	5,9
UK	1,15	730	360	17,2

Source: Tax administration in OECD countries: Comparative Information Series (2004), Centre for Tax Policy and Administration.

The data presented above should be interpreted with considerable care as they are divorced from their national institutional context, although in comparison, France and the three New Member Sates show a different pattern with relatively high costs per unit of collected revenues and also relative high tax arrears.

In recent years the European tax systems have undergone a large number of different attempts to increase simplicity and increase transparency, from reducing tax rates and the number of tax brackets to simplifying tax administration. Recently the Polish and Slovak governments have introduced radical tax reforms and a similar transformation of the tax regime is also permanent topic of political debate also in Hungary, paradoxically increasing the uncertainty of the system.

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Part V

LABOUR RELATIONS IN A COMPARATIVE PERSPECTIVE – SPECIAL FOCUS ON THE SME SECTOR

10. Varieties of patterns in European labour relations

Prior to identifying and understanding the main features and trends in the development of labour relations[31], we would like to stress the core importance of social dialogue in the construction of the European social and economic space. Adopting the importance of the partnership approach both at EU- and national level (Member States), we recognise the joint responsibility of various actors for the necessary social and economic changes within the context of intense globalised competitive pressure.

Implementing new forms of working and employment conditions often referred to as the 'flexible' practice of knowledge and manpower use requires permanent efforts from the social actors to make a consensus both on the new priorities and on the transformation of the old ones. In this context of change, we intend to draw attention to the strong interactions taking place between social actors and institutions of the Labour Relations System (LRS). In mapping the changing diversity of the characteristics of the LRS, we would like to use the following analytical dimensions:

1. Social actors, that is trade unions, employers' organisations, and other types of interest representatives associations.

2. Institutions, that is collective agreements (e.g. coverage rate, level of coordination), wage bargaining, institutions of employees' participation (e.g. works council), national tripartite institutions, industrial action (e.g. strikes).

3. Reciprocal conditioning relation between social actors and institutions.

Beside the descriptive analyses of the roles of actors and institutions, we intend to identify and illustrate several trends (decentralisation, changing forms of

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[31] In the publications representing the mainstream views the term 'industrial relations' is used almost exclusively. Contrary to this practice, we intend to use 'labour relations' instead of the notion of 'industrial relations'. In our view, the term 'labour relations' seems to us to be more general and it indicates the growing importance of the idea and practice of social partnership not only in the field of traditional industrial economic activities but in the service sector and especially in the fast growing branches of the New Economy.

coordination and cooperation, etc.) which are shaping the present and future practice of labour relations at European and country level, and especially in the SME sector. In other words, we would like to give some insights both into the dynamic process of social relations between actors and institutions and in their changing social and economic environment. The first section (10.1.) of this chapter provides a general overview of the up-to-date analysis of the actors (e.g. interest representative organisations both of employees and employers) and the formal institutions of the LRS (e.g. collective bargaining coverage rate, etc.). The second section (10.2.) offers a review of the actors' on the everyday social and employment practice of SMEs in relation to various institutional characteristics of the LRS.

10.1. Actors and institutions: an international comparison at European and country levels

10.1.1. Trade unions and institutions (Works Councils) of employees' participation

Before giving a general outline of the main characteristics of actors and institutions it is necessary to make a distinction among national LRS according to the roles of the trade unions and the employees' participation in the firm. According to these two dimensions the following patterns should be distinguished at the European social space (Industrial Relations in Europe 2004:21):

1. The *'single channel system'*, where the workplace representation of employees (i.e. rights to information, consultation or co-determination) is controlled exclusively by the trade unions. The advantage of this system for employees' representation relies in its simplicity and the lack of rivalry between the two channels of employees' workplace representation (e.g. Poland and UK illustrate well the 'single channel systems', but based on the voluntary principle.) However, the 'single channel system' of employees' representation does not deal with the problems of non-union members, and employees in non-unionised firms are excluded from the collective representation (e.g. information, consultation and/or co-decisions).

2. The so-called *'mixed' channel system* in which the workplace representation of the non-union members is achieved by the trade unions or through a supplementary channel in the non-unionised companies (e.g. in Poland the government supports the establishment of works councils, independent from the trade unions because of the opposition of both certain unions and employers.)

3. In the case of the of the *'dual channel system'* the Labour Law provides a separate channel of employees' participation – additional to trade union representation. This duality of LRS characterises the majority of countries participating in the Leonardo Project: Belgium, France, Germany, Hungary, Slovakia, Spain and Poland (in this latter country works councils exist only in publicly owned firms). In the countries where the 'dual channel system' operates, a kind of rivalry was found

between the works council and trade unions. (Makó 2001.) However, "in reality lay union officials and representatives tend to play a leading role in the councils and councils may be a recruitment ground for trade unions. Works councils tend to be highly unionised and in council elections the trade union candidates tend to attract votes from members and non-members alike. Another encouraging sign is that voter turnout in workplace election tends to be high, between 65 and 85% ...in the new Member States (NMS) only ...in Hungary and Slovenia are councils comparable with the fully-fledged types in EU-15." (Industrial Relations in Europe 2004: 21–23).

This section provides an overview of the trade union density rates[32] and on union structures and affiliation. In relation to *density rates*, significant differences were identified betweens the global economies of Europe, USA and Japan and among the countries of the EU-25. As we expected, the union density rate (2001) is much higher in the EU (25) 26.4% in comparison with USA 12.9% and Japan 20.9%. Among the countries participating in the Leonardo project substantial differences were found, too. The highest unionisation rate was registered in Belgium 55.8% (2001) followed by Slovakia 35.4% (2002) and the UK 30.4% (2002), then Germany 23.2% (2002) and Hungary 19.9% (2002). (2001). The lowest trade union density rates were identified in Poland 14.7% (2001) and France 9.7% (2001). In addition, we must note that the union density rates vary substantially in the private and public sectors. For example in Hungary, France, Poland and Slovakia more than every second union members works in the public sector. The higher density rates in the public sector are explained partly by the institutional heritage of the past in the post-socialist countries which became EU members (1st May 2004) and the difficulties of trade unions in recruiting members in the private sector, especially in the SME sector and in the newly established firms (i.e. companies established in the form of "green-field" investments). (Makó – Novoszáth 1995) (Table 10.1) It is worth mentioning that density rate is only one proxy indicator of the trade union influence. Beside this indicator there are other indices like mobilisation rate and the organisational comprehensiveness. For example militant trade unions with low density rate may increase their bargaining power using strong mobilisation capacity. Similarly, trade union confederations which are individually rather weak, but able to cooperate and coordinate their policies and activity with other confederations (i.e. organisational comprehensiveness) could strengthen their bargaining position towards with employers' association and government.

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32 'Density rate' or 'unionisation rate' reflect to the number of trade union members.

Table 10.1

Trade union density rates and membership composition, 1995–2002

Country	Union density rates		Change		Share of all members	
	1990	1995	2002	1995–2002	Female	Public
Belgium	53.9	55.7	55.8*	+0.1	n. d.	n. d.
France	10.1	9.8	9.7*	-0.1	48.3**	66.3**
Germany	31.2	29.2	23.2	-0.9	31.2	39.3
Spain	14.7	16.3	14.9 (1999)	-0.1	n. d.	31.2**
Hungary	n. d.	63.4	19.9	-6.2	48.7**	70.3**
Poland	n. d.	32.9	14.7	-18.2	55.1**	76.6**
Slovakia	78.7	57.3	35.4	-43.3	49.6**	70.9**
UK	39.3	34.1	30.4	-8.9	43.7	47.4
Average EU-25***	n. d.	32.6	26.4*	-6.2	n. d.	n. d.
Average EU-15***	32.8	31.0	27.3*	-5.5	n. d.	n. d.
Average EU-10***	n. d.	42.7	20.4*	-22.3	n. d.	n. d.

NB: Density rates for EU-15 countries are standardised, i.e. without unemployed and self-employed, retired employees and student members, along the model in B. Ebbinghaus and J. Visser (2000) *The societies of Europe*, op.cit. In the case of the UK, figures are calculated from the labour force survey. Elsewhere they are recalculated from administrative sources. See also OECD, *Employment Outlook 2004*, Chapter 3 ('Wage-setting outcomes and institutions'), Paris, July 2004. The EU-10 figures are non-standardised and follow nationally based statistics collected by the Institut des Sciences du Travail of the Université Catholique de Louvain, *Monographs on the Situation of social partners in the candidate countries*, Brussels, December 2003, a research project conducted on behalf of the Employment and Social Affairs DG of the European Commission. Quoted by 'Industrial Relations in Europe' (2004), p. 19. Table 10.1 is an edited version of the original one containing data only for countries involved in the Leonardo Project.

* Data available only from 2001.

** The data on membership composition (share of female members; share of members in the public sector) are calculated from sample surveys of the International Social Science Programme (ISSP) and relate to 1998.

*** Weighted averages. In the case of missing data, the nearest year is taken into account.

Evaluating the patterns of trade union structures and affiliations in the countries involved in the Leonardo Project we distinguished the following two structural settings. In the first group of the countries surveyed, a 'single or dominant' trade union confederation coordinates the activities of the branch organisations. This group of countries comprises Germany, UK and Slovakia. In the second group of countries trade union centres are divided on political and ideological bases. For example in France and Spain a 'political divide' exists within the broad left; other divisions relate to ideological orientations such as Christian and Social Democratic values. In NMS countries like Hungary and Poland trade union centres have links with both right and left parties (e.g. in Hungary, the 'National Alliance of Works Councils' has links with the Democratic Forum and the 'National Association of Hungarian Trade Unions' maintains quite strong links with the Hungarian Socialist Party.) Further fragmentation of the trade union centres can be observed

in some countries. For example in France, there are separate centres for managerial and white collar staff and a regional division is noticeable in Spain. (See the Table 10.2.)[33]

Table 10.2

Union structure and affiliation patterns in the EU

Country	Main union confederations[1]			Affiliates[2]		
	N°	Main divisions between confederations	Share of largest	N°	Main divisions between confederations	Share of all members
Belgium	3	political-religious	50	17	sector&status	2
France	6[4]	polit-relig&occup.	28	20	sector	12
Germany	1[2]	private&public	83	8	sector	17
Spain	2[3]	Political	41	12	sector	19
Hungary	6	Political	31	42	sector	1
Poland	3	Political	43	110	sector&company	?
Slovakia	1	?	95	37	sector	5
UK	1	?	84	71	occup.&sector	16

[1] Only confederations that organise in several sectors and organise 5% or more of total membership.

[2] Affiliates or member unions belonging to the largest confederation, only national unions (without local organisations).

[3] Without 36 affiliated unions in Northern Ireland.

[4] Including Turkish Cypriot organisations in Northern Cyprus.

Source: B. Ebbinghaus and J. Visser (2000) *The societies of Europe. Trade unions in western Europe since 1945*, Palgrave for the main divisions and demarcations in EU-15, updates with information from unions' websites (number of unions) and AIAS union file. For EU-10 Member States, information is obtained from Commission research (UCL). Quoted by Industrial Relations in Europe 2004:15. The table 10.2 is an edited version of the original one containing data only for countries involved in the Leonardo Project.

Comparing the patterns of trade union structures, affiliation and characteristics of the recent modernisation of the union organisation (e.g. organisational decentralisation – fragmentation or concentration-merger) we may identify not only contrasting but non-synchronised movements. For example, at the beginning of the XXIst century (2001) in Germany, the autonomous general trade union of white-collar employees merged with the well-known German Confederation of Trade Unions (DGB). A similar major union merger took place in the UK (2002), too. The *creation of these 'conglomerate' unions* was the answer of the trade unions in the EU-15 countries to the external social and economic changes (e.g. to better cope with the growing need for coordination among trade unions in their

[33] Naturally there are other organizational principles of the interest representative organisations. For example in another group of the countries – whose members did not participate in the Leonardo Project – trade union centres are created on an occupational basis (e.g. Finland, Sweden, Denmark etc.).

confrontation-cooperation with the employers and their associations.) The creation of the 'conglomerate' or 'super' trade unions should be interpreted as an initiative which may counterbalance the increased discretionary power of employers opened to them by the disintegration of both external and internal constraints. In other words, the merger process of trade unions can be evaluated as an institutional answer of the employees' interest representative organisations to counterbalance the effects of deregulation and the associated destabilisation of rules and procedures of the labour market within and outside firms. The concentration – merger of trade union confederations was partly an attempt to cope with the difficulties resulting from growing internal financial difficulties and the declining trade union membership, too. In the NMS participating in the Leonardo Project we may identify contradictory tendencies. During state socialism employees were forced to be trade union members (e.g. the unionisation rate was artificially high, over 90 %) and the trade unions operating in various economic branches were centralised into one national level centre (e.g. in Hungary this 'mega' centre was called the 'National Council of Trade Unions', in Hungarian: "Szakszervezetek Országos Tanácsa" = SZOT). As a natural reaction to this kind of 'forced' centralization-bureaucratization of trade unions, following the collapse of the state-socialist political-economical regime, in these countries the 'decentralization-fragmentation' became the mainstream tendency. As a result of the breaking down of the former single-centre, we witnessed the emergence of numerous new trade union centres. (See the Table 10.3.) However, in the last years there has been an attempt to rationalise and centralise the decentralised and fragmented trade union structures (e.g. in Hungary and Poland).

Table 10.3

Employees Representation and Employees Rights: Single, Mixed and Dual Versions of the LRS

Country	Basis	Single	Mixed	Dual	Union competition	Separate union workplace representation
Belgium	L&C			Y	Considerable	Normally
France	L			Y	Very strong	Frequently
Germany	L			Y	Marginal	Sometimes
Spain	L			Y	Very strong	Normally
Hungary	L			Y	Very strong	Normally
Poland	L	Y			Very strong	N.A.
Slovakia	L			Y	Marginal	Sometimes
UK	A	Some			-	N.A.

NB: Basis for employees representation rights: central agreement = C; agreement (sector/company) = A; law = L, Yes = Y, Not applicable = N.A.

Source: Industrial Relations in Europe 2004, p. 22.

Evaluating the existence of the employees' participation institutions (e.g. works councils) beside the interest representative roles of the trade unions, we made a distinction between 'single', 'mixed' and 'dual systems' (Table 10.3). In the majority of the Leonardo Project countries the 'dual' – Belgium, France, Germany, Hungary and Slovakia – and in Poland and the UK the 'single' version of the Labour Relations System operates. Even in the countries where *works councils* as an institution of employees' information and consultation systems do exist, "...differs significantly from country to country in terms of composition, decision-making, election procedures, thresholds, roles and power of the employees representative bodies." (Carley, Baradel, Weltz 2004: 4).

The common elements of the various national works council definitions found in the EU-15 countries are summarised in Box 10.1.

Box 10.1. Works councils definition

Permanent elected bodies of workforce representatives (or occasionally a joint committee with employees representatives), set-up on the basis of law or collective agreements with the overall task of promoting cooperation within the enterprise for the benefit of the enterprise itself and employees, by creating and maintaining good and stable employment conditions, increasing the welfare and security of employees and their understanding of enterprise operations, finance and competitiveness.

Source: Carley, Baradel, Weltz 2004:9.

In the context of the establishment of works councils, in all European countries – with the exception of Sweden – there is a *minimum workforce-size threshold* for the creation of this institution of the participation. In the Leonardo Project countries, the lowest threshold for works councils' establishment is in Germany with 5 employees; in France, Hungary and Spain it is 50 and in Belgium 100 employees. In UK there is no general or statutory system of information and consultation. Beside the 'threshold' the other essential distinctive feature of works councils is the following: whether or not these institutions of employees' participation are established automatically in all establishments satisfying the threshold criteria or must be *triggered (or initiated) by* social actors of labour relations (e.g. employees, trade unions or employers). The establishment process in these countries is basically automatic in Belgium and France but in the majority of the countries must be initiated by employees/trade unions, e.g. in Hungary, Germany, Poland, Spain.

The statistical analysis of the works councils does not provide information on the difficulties of everyday company practice related to the functioning of this employees' participatory institution. For example, in countries where the labour code guarantees the rights of works councils (and their members) in regulating the fields of co-decision (e.g. social infrastructure), these rights are sometimes violated even in large firms operating in such a well-established sector as the chemical industry. See the Hungarian example on the violation of works councils' prerogatives in the next box!

10.1.2. Affiliations and organisations of employers: European and national level comparisons

The existence and activities of employers' interest representative associations (organisations) influence the practice of singular or multi-employers' bargaining and, consequently, the coverage rate of collective agreements. The organisational building up of employers' associations varies across the countries participating in the Leonardo Project. In relation to the employers' organisations, it is worth noting the dual structure of these organisations. The single structure operating at cross-industry level exists in Belgium, France, Slovakia, Spain and in the UK. Unlike the previously mentioned countries, Germany has employer organisations with a division of tasks and responsibilities – at the national level – between collective interest representation (i.e. partners in collective bargaining) and trade interests (i.e. chamber of trade and commerce, etc.)[34].

In addition to the process of mergers of trade unions briefly outlined earlier, in the case of employers' interest representative organisations there is a new trend towards the integration of Human Resource Management, social policy, and labour relations into general business services. However, the organisation of *'le Patronat'* (employers' organisations) had actually never separated these functions in such countries as Belgium, France and Spain.

The most radical restructuring process took place in the post-socialist economies during the 1990s following the collapse of state-socialist *'regimes'*. In the aftermath of privatisation, in relation to the deconstruction-decentralisation of the former mono-system of employers' organisations, a proliferation of employers' organisations have taken place.[35] As a result of this process, there are three employers' organisations in Poland and six or more in Hungary. Among various problems related to the role of business and employers' associations in the New Member States, we would like to stress the underdevelopment of sector level bargaining: "This is due to the fact that in most of these countries sectoral employers' organisations are either weak and lack the necessary resources to participate, or are denied the authority to conclude sectoral agreements on behalf of their members, as is often the case for instance in Hungary and in Poland."[36] However, in Hungary, to overcome the lack of sector level social dialogue, an EU-funded

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[34] Note: in some regions, for instance in Bavaria, the two structures have been integrated. In this context, we should mention that rationalisation processes have been identified at the levels below the peak associations. This process includes on one hand mergers of employers' organisations and trade interests, and on the other hand integration of employers' associations representing neighbouring sectors (e.g. a notable number of mergers at the levels below peak associations were reported in the UK). *Source:* Industrial Relations in Europe 2004:26.

[35] In relation to the membership of employers' organisations, we would like to note the following: not counting countries where the membership of employers' organisation is obligatory by law, the average organisation rate is 60%. Though, this average hides significant differences across countries participating in the Leonardo Project. For example, extremely high organisation rates (70% or more) were found in Belgium, France and Spain. A below average rate (40%) characterises the British employers' organisations. In some countries no data were available (e.g. Hungary, Poland).

[36] *Source:* Industrial relations in Europe, 2004. p. 27.

(PHARE, 2001–2004) project was launched aimed at creating an autonomous sector (branch) level institution of social dialogue. This new institution within the Hungarian LRS would have a role in supporting sector level consultations among the social actors, increasing the number of sector level collective agreements.[37]

Evaluating the representation of employers' interests at EU level, the '*Union des Industries de la Communauté Européenne*' (UNICE – since 1987 this organisation fulfils the role of an 'Industrial and Employers' Association') covers almost all the main national cross-industry confederations of competitive (private) sector employers. In addition to the EU-15 countries, the majority of the NMS are also represented in this organisation (e.g. Hungary, Poland and Slovakia). Continuing the distinctions we have made between employers' organisations and trade associations, the UNICE acts as both types of organisation. In other words, it is engaged in social dialogue and negotiations with the European Trade Union Confederation (ETUC) and as a trade association promoting its members' interests in influencing EU decision-makers on great variety of issues (e.g. see the debate on the Chinese textile quota in the European Union in August-September 2005).

Reviewing the situation of European level representation of employers' organisations in the SME sector, it is important to stress the following characteristics. There is a separate European-level institution representing the particular interests of the SME sector: the European Association of Craft and Small and Medium-sized Enterprises (UEAPME). This European-level body representing SMEs has 77 national member organisations in EU-15 countries. Of the NMS only Hungary is admitted as a full member. All other NMS have only observer status.

10.1.3. Collective bargaining and social dialogue: collective bargaining as case in point

This section reviews the key institutions regulating the relations between employers (employers' organisations) and employees' interest representative associations (trade unions). In this context, we have to distinguish between the following institutions:

1. Collective bargaining
2. Consultation
3. Social dialogue.

In dealing with these institutions, we intend to focus mainly on the issues of collective bargaining (for example: coverage rate, legal extension of collective agreements, wage bargaining, etc.) and the role of tripartite bodies as a particular form of social dialogue. In the previous section we have already given details of various features of works councils as a key form of consultation; therefore this section does not deal with this form of collective representation.

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[37] Foglalkoztatáspolitikai és Munkaügyi Minisztérium (Ministry for Employment Policy and Labour) 2004:5.

Evaluating the practice of *collective bargaining*, there are noticeable differences in the conditions and the impacts of collective bargaining both in EU-15 and NMS countries involved in the Leonardo Project.

Box 10.2. ILO definition of Collective Agreement

ILO Convention No 98 of 1949 defines collective bargaining as 'voluntary negotiations between employers or employers' organisations and workers' organisations, with a view to the regulation of terms and conditions by collective agreements'. Collective bargaining is thus a rulemaking process based on joint decisions between independent organisations. When successful, it results in agreements which specify the collective rules and conditions applying to employment and employment relations in firms, i.e. conditions of work and rules governing the relations between employees and managers. Additionally, agreements usually also define the relationship between the negotiating organisations, for instance with regard to the renewal of agreements, dispute procedures, peace obligations, recognition and facilities. All this has no counterpart in individual bargaining between workers and managers.

Source: Industrial Relations in Europe 2004: 29.

Prior to the presentation of the coverage rate of collective bargaining both at European and country levels, we have to raise briefly some methodological problems. The collective bargaining coverage rate operationally refers to the number of employees covered by a collective agreement (CA) as a proportion of all wage- and salary-earners employed. At a general level, the collective bargaining measures the "... extent to which the terms of employment in an economy are regulated by collective agreement." (Industrial Relations in Europe 2004:30) It is a widely accepted view among labour relations experts that the bargaining coverage rate indicates the real bargaining strengths of the trade unions concerning employment and working conditions (the union density rate reflects only the potential bargaining power of organised employees).

There are several important factors influencing the collective bargaining coverage rate and its measurement (see in detail these methodological problems, in Industrial Relations in Europe 2004:30). Table 10.4 illustrates the national (aggregate) rates of collective bargaining coverage, the employers' organisations and union density.

When comparing the collective bargaining coverage rates with the union density rates, we identified patterns:

1. The *collective bargaining coverage rate* is not only more stable but at *least twice as high as the union density rate*. This difference draws attention to the importance of a careful interpretation of the union density rate in relation to the strengths and mobilisation capacity of trade unions.

2. Comparing the coverage rate of the EU-15 and NMS countries we found a *striking gap*: in the EU-15 countries – in spite of their massive variation from 100% (France) to 36% (the UK) – the aggregated average rate is quite high (the weighted average rate for EU-15 countries is 78%). In the case of NMSs – with the exception of Slovenia (100%) – a decline in collective bargaining coverage has been identified during the transformation from the early 1990s to today. For example, "a recent statistical study of the Ministry of Employment and Labour in Hungary reported a further 5-point drop in the coverage rate from 45 to 40% between 2001 and 2002 (unadjusted rates). According to the study, this suggests that

private-sector employers may be withdrawing from wage negotiations and that the current company bargaining structure provides no stable framework". (Industrial Relations in Europe 2004, p. 32.).[38]

3. In relation to the lower collective bargaining coverage rate in the NMS countries, we should note that the declining coverage rate was especially strong in the so-called post-socialist economies. This decline was particularly deep in comparison with the former 100% coverage rate of the state-socialist firms based on the obligatory membership of both trade unions and chambers of commerce, trade and industry.

Table 10.4

Collective bargaining coverage, employers' organisations and union density

Country	1–10	11–20	21–30	31–40	41–50	51–60	61–70	71–80	81–90	91–100
Belgium						U		E		Cov
France	U							E		Cov
Germany			U				Cov, E			
Spain		U						E	Cov	
Hungary		U		Cov						
Poland		U			Cov, E					
Slovakia				U	Cov					
UK			U	Cov, E						

NB: Cov = bargaining coverage rate; E = employer organisation rate (private sector); U = Union density rate. Quoted by 'Industrial Relations in Europe' 2004:31. Table 10.4 is an edited version of the original one containing data only for countries involved in the Leonardo Project.

10.1.3.1. The role of extension in collective bargaining

It is not unusual for employers to voluntarily extend negotiating agreements to both unionised and non-union workers. This non-discriminatory extension of collective agreements to employees working in the same firms is recommended as a 'best practice' by the ILO Recommendation N°91 of 1951. The following box describes the legal or administrative regulations concerning the extension of negotiated agreements to both union and non-union members.

There are great variations in the procedures related to the extension of collective agreements. Public authorities, such as Ministries of Labour, play a decisive role in initiating the extension in France, in Spain and to some extent in Slovakia. "Several countries have established minimum requirements for extension, most commonly minimum rates for coverage of the relevant agreement prior to extension" (Industrial Relations in Europe 2004:34) – this practice is used for example in Germany, Hungary and Spain. Table 10.6 summarises the various procedures related to the legal and administrative regulation of the extension of collective agreements.

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[38] It is necessary to mention that in many cases employees are coping with the problem of the delays in payment and underpayment, even where collective agreements exist. In Poland, for example, we have found only one government survey. Two thirds of audited companies were in breach of contract, including both small and large sized companies (Industrial Relations in Europe, 2004, p. 32.).

Box 10.3. ILO Recommendation on the Extension of Collective Agreements

(1) Where appropriate, having regard to established collective bargaining practice, measures, to be determined by national laws or regulations and suited to the conditions of each country, should be taken to extend the application of all or certain stipulations of a collective agreement to all the employers and workers included within the industrial and territorial scope of the agreement.

(2) National laws or regulations may make the extension of a collective agreement subject to the following, among other, conditions;

(a) that the collective agreement already covers a number of the employers and workers concerned which is, in the opinion of the competent authority, sufficiently representative;

(b) that, as a general rule, the request for extension of the agreement shall be made by one or more organisations of workers or employers who are parties to the agreement;

(c) that, prior to the extension of the agreement, the employers and workers to whom the agreement would be made applicable by its extension should be given an opportunity to submit their observations.

Source: http://www.ilo.org/ilolex/english/recdisp1.htm

Table 10.5

Legal or administrative extension of collective agreements

Country	
Belgium	Extension is automatic if agreements are signed by all parties in Joint Industry Councils or in the National Labour Council. If not, the Ministry can extend multi-employer agreements by royal decree following application from one or more bargaining parties.
France	At the request of one or more of the bargaining parties, addressed to the National Commission on Collective Bargaining, the Minister can extend agreements to entire sectors and/or enlarge agreements to different geographical regions or other economic sectors.
Germany	On the application of one or more of the bargaining parties and approved by a special committee for extensions, and if more than 50% of the workforce is already covered, the Ministry can extend agreements to the entire sector. Since 1998, and only in the construction industry, the Ministry can extend minimum wage provisions on its own initiative.
Spain	Extension is automatic throughout the agreement's domain if signed by a majority of the representatives of each party to the agreement. Upon request by unions and/or employers, the Ministry can enlarge the agreement in cases where no bargaining exists.
Hungary	On application of one or more of the bargaining parties and after consultation with the subcommittee of the National Interest Reconciliation Committee, the Ministry can extend agreements to the entire sector. Applicants must provide proof of their representativity in the sector concerned.
Poland	The Ministry can extend multi-employer agreements to cover unaffiliated employers in a particular sector, if considered 'a vital social interest'.
Slovakia	On the application of one or more of the bargaining parties and recommended by a special tripartite committee for extension, the Ministry can extend agreements to employers with similar business activities and economic and social conditions.
UK	No practice of extension of private-sector wage agreements. All extension provisions were abolished in the 1980s.

Source: F.Traxler and M. Behrens (2002), 'Collective bargaining coverage and extension procedures'; EIRO – *Eironline*; OECD (2004),'Wagesetting institutions', in *Employment outlook*, Paris, 17. Quoted in 'Industrial Relations in Europe' 2004:33. Table 10.5 is an edited version of the original one containing data only for countries involved in the Leonardo Project.

A 2002 EIRO study provides a general view on the practice of the extension of collective agreements. The key lessons of this survey should be summarised in the following way: high stability and continuity of extension provisions characterise the EU-15 and some of the NMS. Before presenting interesting cases covering some of the countries participating in the Leonardo Project, we should point out that the last few years have been characterised by intensified debates on the extension of collective bargaining (e.g. France, Germany, Hungary and Poland). In the following brackets, we would like to illustrate both the procedural and substantive dimensions of these debates:

Box 10.4. Common guiding principle of employers: more possibilities for optouts ('hardship clausal')

France and Germany

In France, in the context of several initiatives to reform the existing collective bargaining system and make it more autonomous and representative, employers have proposed to create more possibilities for optouts, with the possibility of offering terms and conditions of employment below agreed, and in some cases, legally established minima. This issue has also emerged in other Member States. In the context of the Agenda 2010 labour market reform programme of the German Government, the issue has arisen whether sectoral agreements should legally be required to contain 'opening', 'hardship' or 'inability to pay' clauses. Unions, both in France and Germany, are strongly opposed. At present, the reform project of the French employers confederation, MEDEF, seems stalled and in Germany the issue has been left to the social partners.

Poland

In Poland, however, after months of debate, Parliament responded to employers' wishes and adopted a revised labour code introducing a far-reaching statutory 'hardship' clause. Accordingly, the signatory parties can agree to suspend a collective agreement for up to three years, if a company faces financial problems. This change presupposes the existence of worker representatives who can sign the suspension, but that there is no statutory workplace representation in Poland and there are no representatives in most firms.

Spain

In Spain, the previous government had wanted to reform collective bargaining and scrap the principle of 'ultra-activity' (*ultraactividad*) which means that a collective agreement remains valid after its expiry, if it has not been renewed. If the end of an agreement would restore the *status quo ante*, employers would have less reason to speedily negotiate a new agreement. In the face of strong trade union opposition, the Spanish employers confederation (CEOE) backed off and signed in 2002 an agreement with the trade unions in which the principle of continued application of agreements was retained.

Source: 'Industrial Relations in Europe' 2004:34–35.

10.1.3.2. Changing forms of coordination in the bargaining process: the case of wage bargaining

From the 1990s, the pattern of decentralisation became the mainstream feature of industrial relations. Under the pressure of global competition, the restructuring process of companies on a national, European or global level is further driven by the utilisation of fast changes in the global value chain. European integration speeded

up in the last year (1st May 2004), in particular making it possible for companies to re-orientate their activities directly at a supranational market. Costs can be cut by selecting the most favourable locations using such enablers as ICT (e.g. through outsourcing or delocalisation of generic business functions). Companies are focusing on their core activities and seeking to outsource others. Cooperation between small and medium-sized companies can be facilitated both by technological and social innovations. These are tools to improve both employment and organisational flexibility. Unfortunately, in the flexibility debate relatively little attention was paid to the role of wage bargaining.[39] However, wage issues had and continue to have a central importance in the debates and wage-re-lated conflicts often occurring in relation to employers' and employees' everyday working practices.

In the last quarter of the century, in many countries bargaining on working time reduction followed the trend of decentralisation. Beside the working time reduction, wage negotiations are shifting into the focus of decentralisation of collective bargaining. The next quotation illustrates well the underlying economic, technological and organisational drivers/enablers favouring the decentralisation of labour relations: "(...) internationalisation, technological and organisational change, multi-tasking, teamwork and client-related work processes have made standardised solutions, negotiated for entire sectors, less feasible and efficient (...) it has become more important for internationally competing firms to have the freedom to react speedily to wage competition from foreign firms. The introduction of performance related pay, and payment by results, has also supported the demand for company level bargaining." (Industrial Relations in Europe 2004:36–37).

Table 10.8 reviewing the levels and duration of collective bargaining in the last survey (2003) indicates that sector or branch level collective bargaining together with firm level bargaining dominate in nearly half of the countries of Europe. The so-called 'multi-employer collective bargaining' at sector level still prevails the wage-setting in the EU-15 countries. There are big differences concerning the importance of various bargaining levels within the national bargaining structures. In the EU-15 countries involved in the Leonardo Project, cross-industry level wage bargaining was found in Belgium and company level bargaining was dominant in France and in the UK. As concerns the UK, we should note that this is the only country from among the EU-15 countries where almost all bargaining takes place at firm level. Similarly to the British case, in the new Member States, company level bargaining dominates, with the exception of Slovakia. (See in details the Table 10.6.).

Beside the various forms of the decentralisation of wage bargaining, there are other tools of wage regulation which may improve the flexibility of employment and knowledge use. Various forms of coordination may improve flexibility of the

[39] The works representing the exceptions are the followings: Crouch C.J., Traxler F. (eds.) (1995), Lindbeck A. and Snower D.J. (2001), Yamamura K. and Streeck W. (eds.) (2003).

labour relation system: "Coordination based on shared understanding and mutual trust may be more important than centralisation of wage-setting. This is perhaps the strongest lesson from the experience of social pacts (many of which were fully unexpected and negotiated in rather fragmented and decentralised wage-setting structures). A shared understanding of the economic and social context, and of key mechanisms driving growth, productivity and employment, greatly increases the probability of wage-bargaining being conducted in a cooperative way, in which each party has an eye on their own long-term self-interest and the common good, and not only to their short-term interest or purely sectional concerns." (Industrial Relations in Europe 2004:44).

Evaluating the types of coordination, we may use the following scale. One extreme of the scale represents the 'explicit' coordination. However, this type of coordination covers various forms: firstly, coordination exists between peak organisations of either trade unions or employers materialised in agreements at national or sectoral level (i.e. bipartite interest concertation). Secondly, explicit coordination may develop in cases when social partners agree to behave according to commonly accepted rules with or without government participation (i.e. tripartite interest concertation). On the middle of the scale of coordination of wage bargaining are located various forms of 'implicit' coordination. The strongest form of this type of coordination is based on the norm or trend-setting role of a leading trade union or employers' group dominating one sector at national or regional level. In other cases (which represent the weaker versions of 'implicit' coordination), social partners intend to inform each other of their ambitions for the wage-setting. When social partners rely on this form of coordination, they do not wish either to set a clear guideline or to reach agreement on wage related issues. The fifth type equals no coordination. Table 10.8 illustrates the location of the countries participating in the Leonardo project on the scale of wage-bargaining coordination.

Table 10.6

Levels of wage bargaining and duration of collective agreements, 2003

Country	National	Sector	Company	Duration of contracts (year)
Belgium	***	**	*	2
France		*	***	2?
Germany		***	*	1–2
Spain	*	**	**	2–3
Hungary	*	*	***	2
Poland		*	***	Variable
Slovakia	*	**	**	2
UK			***	Variable

NB: *** = principle or dominant bargaining level; ** = important but not dominant level; * = existing level of bargaining. *Sources:* Adapted from EIRO publications. Quoted by 'Industrial Relations in Europe' 2004:39. Table 10.6 is an edited version of the original one containing data only for countries involved in the Leonardo Project.

The findings of Table 10.7 draw attention to the following three groups of countries in relation to wage-bargaining coordination. Only Belgium maintained or reintroduced some forms of explicit coordination at the national level. In Germany and Spain – where central agreements have set guidelines for wage conduct since 2001 – the implicit coordination characterises the relations between social partners. Pattern setting practice exists in Germany and implicit coordination characterises the French wage-bargaining coordination. Finally, in the UK, similarly to Poland, both national and sectoral level coordination are missing.

It is worth noting that: "The tradition of national wage agreements, existing in Slovakia, faltered in the late 1990s and the last such agreement was concluded in 2000. Attempts to reach agreement in Poland stalled in 2003. In Hungary, however, there have been fresh initiatives. Usually the legal status of a national agreement is a non-binding recommendation to lower level bargainers, but there is little coordination, within or between confederations, or in sectors, to put pressure behind such recommendations or monitor their follow-up." (Industrial Relations in Europe 2004:46).

The review of the various coordination forms of wage bargaining calls attention to the active role of national governments in influencing the outcomes of this bargaining. Evaluating the degree of government intervention in wage bargaining, we used a 5-point scale measurement (Industrial relations in Europe, 2005, p.52.).[40] Assessing the degree of government intervention in wage bargaining in the Leonardo countries, the results show considerable variations. The highest scores were reached in Belgium (4.1) and in France (3.1), followed by Hungary (3.0). The lowest level of government intervention was registered in such countries as the UK (1.2), Germany (1.9) and Spain (1.9). The scores on government intervention occupy the middle position in Poland (2.5) and in Slovakia (2.5). Due to the important regulatory role of statutory minimum wages[41], it is important to know which countries have such a practice. All EU-15 countries involved in the Leonardo project now have a minimum wage. In Belgium, the minimum wage is set by national level collective agreements but in the other countries (France, Spain, UK), the minimum wage is regulated by law. Similarly to the EU-15 countries, a statutory minimum wage was adopted in all new Member States (Hungary, Poland, Slovakia).

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[40] The five-point scale proposed by the report is as follows: 5 = government imposes private sector wage settlements or suspends bargaining (involuntary wage freeze); 4 = government participates directly in private sector wage-bargaining and provides norms or ceilings, or tax-based compensation to achieve particular outcomes (social pacts); 3 = government determines wage bargaining outcomes indirectly through minimum wage-setting, wage-setting in the public sector, or through threats of sanction (for instance, withholding extension or recognition); 2 = government sets a minimum wage and provides a institutional framework for national or sectoral collective bargaining (legal protection of agreements, extension), consultation or dialogue (recognition and consultation). (1.5 if only one of these applies); 1 = no role of government in wage-setting. (Industrial relations in Europe 2004:50).

[41] 'The (*statutory*) national minimum wage can also be seen as a form of coordination, since it functions as a reference point for the whole wage system.' (Industrial relations in Europe 2004:51.).

Table 10.7

Coordination of wage bargaining

Country	Types of coordination	
Belgium	Explicit coordination in National Labour Council, little sectoral coordination	4
France	Irregular implicit coordination through pattern-setting in the public sector and nationalised industries	1.5
Germany	Implicit coordination through comprehensive sectoral bargaining and pattern-setting	3
Spain	Some explicit coordination between confederations of unions and employers in recent years and weak pattern-setting in sectoral bargaining	3
Hungary	Some national coordination through the tripartite body, no sectoral coordination	2
Poland	No national or sectoral coordination	1
Slovakia	No national coordination since 2000, some sectoral coordination	2
UK	No national or sectoral coordination	1

NB: 5 = Explicit coordination between and within the peak association of unions and employers, through agreements at the national and sectoral level; 4 = Explicit coordination between peak federations through agreements at national level only, or implicit coordination in confederations (unions or employers) at the national and sectoral level; 3 = Implicit coordination through synchronisation of sectoral bargaining and pattern-setting; 2 = Some coordination through supervision and weak, irregular or incomplete pattern-setting; 1= No coordination at the national or sectoral level. Weighted with coverage rate.

Quoted by 'Industrial Relations in Europe' 2004:45. Table 10.7 is an edited version of the original one containing data only for countries involved in the Leonardo Project.

10.1.4. National level concertation and consultation institutions: a brief overview

The unions' and employers' national level representative bodies dealing with consultation may take the form of bipartite, tripartite or a wider membership. As concerns their function, they may have the following roles:

1. Advisory role
2. Consultative or negotiating role
3. Standard setting function

In relation to the various roles of these consultation bodies, we must emphasise the particular situation relating to tripartite consultation in the post-socialist countries participating in the Leonardo project. Without exception, in theses economies the tripartite consultation and representation became institutionalised either on the eve or in the aftermath of the democratisation process. For example, Hungary's OÉT – National Council of Reconciliation Interests – was established in 1987. In the case of Poland, the national forum for social dialogue, the 'Tripartite Commission for Social and Economic Issues', was established in 1994. In Slovakia, the tripartite dialogue between the social partners (the state, trade unions and employers' associations) has been operating for more than a decade. In the EU-15 countries the presence of the national bodies for consultation and representation is general. In the majority of cases, participation in such institutions is practiced by national peak associations of both trade unions and employers' or-

ganisations.[42] These statutory bodies which could be bipartite, tripartite etc., deal with general issues (Belgium, Hungary) or specific issues such as social security administration (e.g. France, Germany) or with the application of labour law and the extension of collective-e agreements (as is the case in Germany). The next table provides a list of tripartite bodies in the Leonardo countries.

Table 10.8

Participation of unions and employers in tripartite bodies

Country	Tripartite bodies
Belgium	National Labour Council (CNT/NAR); various bodies at sectoral and regional level
France	National Commission on Collective Bargaining; Unemployment insurance fund (UNEDIC); various social security fund-holding bodies
Germany	Parity committee for extension of collective agreements; social security administrative boards; labour courts and labour market board
Spain	Economic and Social Council (CES); National Institute of Employment (INEM); State Commission for Continuing Training (CEFC)
Hungary	National Council of Reconciliation Interests (OÉT)
Poland	Commission for Social and Economic Issues
Slovakia	Council for Economic and Social Concertation (RHSD); Agreement Extension Committee
UK	Participation of individual representatives in Low Pay Commission (LPC), Learning and Skills Council (LSC) and Health and Safety Executive (HSE)

Source: Database of the Institut des Sciences du Travail of the Université Catholique de Louvain (1997–2003) on behalf of the Employment and Social Affairs DG of the European Commission. Quoted by 'Industrial Relations in Europe' 2004:54. Table 10.8 is an edited version of the original one containing data only for countries involved in the Leonardo Project.

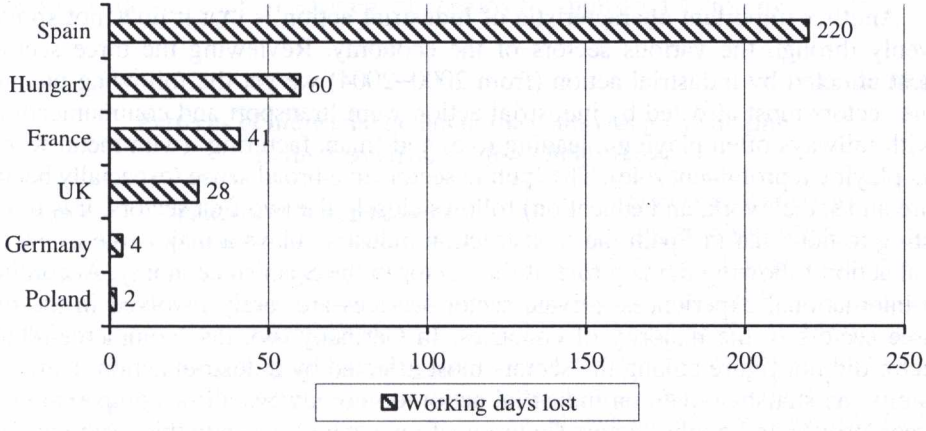
10.1.5. A highly sensitive feature of labour relations: industrial action

The number of strikes, lock-outs, sabotage, etc. as various forms of industrial action is one of the most high-profile characteristics of industrial relations. Beside the very intensive media coverage or public attention, the intensity of the industrial action – measured by working days lost, number of employees involved, number of industrial disputes, etc. – is an important indicator of whether or not labour relations systems are functioning. The intensity of industrial action in itself does not reflect automatically a malfunctioning system, indeed according to other features of employment relations it may even reflect a well-functioning system. For example, in the later part of this section, we will present the surprisingly low level of industrial action measured by working day lost by strikes per 1,000 employees in Germany (4.0) and in Poland (2.1). Despite the low level of this indicator, the explanatory factors are rather different. In the first case (Germany), the level can be attributed to the regulated nature of the coordinated market economy, while in Poland it could be

[42] Note: trade union officers and employer representatives in the UK are appointed not as official representatives of their associations, but as 'competent individuals'. (Industrial relations in Europe 2004:53.)

a consequence of two interrelated factors. On the one hand the deterioration of the employees' labour market position (a double-digit unemployment level), and on the other hand the radically weakened positions of trade unions.

The highest rate of working days lost by industrial action per 1,000 employees was registered in Spain (219.7), followed by Hungary (60.2), France (40.5) and the UK (27.5). (See details in Figure 10.1 and Table 10.10.).



Source: EIRO, 2005:9.

Figure 10.1. Working days lost through industrial action per 1,000 employees in countries participating in the Leonardo project

Table 10.9

Working days lost through industrial action

Country	2000	2001	2002	2003	2004*
Belgium	*n. d.*	*n. d.*	17.6	*n. d.*	*n. d.*
France	54.0	45.0	32.0	31.0	*n. d.*
Germany	0.3	0.8	9.6	5.1	1.6
Spain	292.5	151.0	377.1	58.1	35.6
UK	20.0	20.0	51.0	19.0	34.0
Hungary	236.0	4.0	0.4	0.3	3.0
Poland	7.4	0.4	0	0.7	*n. d.*

* In some cases, extrapolations from partial figures only – see notes.

Source: EIRO 2005:7.

Table 10.9 highlights the following notable points:

1. The very low level of industrial action – even a complete absence in some years – in some of New Member States (Hungary, with the exception of the year 2000, and Poland) and in such EU-15 countries as Germany.

2. Very different patterns were registered in the broadly comparable (in size terms) 'big four' old European States: France, Germany, Spain and the UK. Spain shows a considerably higher level of industrial action than France, the UK and Germany, although Spain appears to have experienced a rapid decline in working days lost by strikes from 2002 to 2003 and the fall continues.

3. The lack of any consistent trend in the majority of countries characterised by figures often rising and falling from year to year.

Another important characteristic of industrial action is that it does not spread evenly through the various sectors of the economy. Reviewing the three sectors most affected by industrial action (from 2000–2004) we get the following picture. The sectors most affected by industrial action were 'transport and communication' (with railways often playing a leading role) and 'manufacturing' (with metal working playing a prominent role). The 'public sector' in a broad sense (especially health care and social work, and education) follows closely the two first sectors. It is interesting to note that in Spain the 'construction industry' plays a major role in industrial action following the key role of this sector in the Spanish economy. According to international experiences, private sector services are rarely involved in the top three sectors in the majority of countries. In Germany too, the 'commerce-retail' sector did not figure among the sectors most affected by industrial action. Unfortunately, the statistical data on industrial action do not always allow comparison between private and public sectors (in terms of ownership). Despite this methodological shortcoming, the share of industrial action by ownership varies considerably in the countries observed. Countries where a relatively high proportion of the 'most strike-prone industries' are in the public sector include France, Hungary and the UK. Another group of countries has the most strike-affected industries in the private sector; this group includes Germany and Spain. Poland and Slovakia present a mixed-pattern of industrial action (i.e. it is not possible to clearly identify either a private or public 'dominance' in industrial action).

Evaluating the types of sectors dominating industrial action in a given year, we found the following syndrome. A single sector accounted for half or more of all working days lost in: Belgium in 2002 (manufacturing); France in 2000–2001 (the civil service); Germany 2001 and 2003 (manufacturing); Hungary in 2001 (non-commercial services). (See in detail Table 10.10.).

Finally, it is necessary to identify the main causes of industrial action. Evaluating the three main reasons for industrial action in the countries participating in the Leonardo project (2000–2004), unsurprisingly, the number one reason for industrial action is unquestionably pay. It features among the leading issues in all countries, but especially in Spain. Pay is consistently the leading single issue in industrial action in France, in Hungary, in Poland and in the UK. Employment is the next most important cause for industrial action in Slovakia which could be attributed to the extremely high (double-digit) level of unemployment. In the context of unemployment, we may note that dismissals are prominent in the UK, and redundancies and job losses are the main source of industrial conflicts in France, Hungary and Poland. Plant closures and company restructuring, which are impor-

tant reasons for industrial action in Hungary, probably also fall under the broad heading 'employment'. The next most common reasons are broadly political issues concerned with generic or specific government policies (e.g. social security, labour law reforms, privatisations and sector restructuring), these being the main reasons for such action both in Slovakia and in Hungary. Political issues are often the source of industrial action in Spain. Working time and working conditions are the least important factors of industrial action in France and in the UK. Table 10.13 provides a general overview of reasons for industrial action by country.

Table 10.10

Patterns of industrial action in the countries participating in the Leonardo Project (2000–2004)

Country	Patterns of industrial action	Sectors most affected by industrial action
Belgium	Mixed	Manufacturing + Transport + Business Service
France	Public sector	Civil Service + Transport
Germany	Manufacturing/private sector	Car Industry (especially in the year of 2000, 2003 and 2004)
Spain	Mixed	Manufacturing/Construction and Broad Public Sector (Transport + Public Administration + Medical Care)
UK	Public sector	Public Administration + Health/Social Care + Education + Transport
Hungary	Public sector	Broad Public Sector (Health Care + Education + Transport)
Poland	Mixed	Broad Public Sector (Health Care + Public Transport + Railways) and Steel and Coal Mining Industries
Slovakia	Mixed	Manufacturing and Transport (Railways and Public Transport

Source: EIRO 2005: 11–16, Table 10.10 is an edited version only containing data for countries participating in the Leonardo Project.

In relation with the industrial actions we may find differences not only between the OMS and the NMS but within the group of countries participating in the Leonardo project. Firstly, comparing OMS and NMS, the, the industrial actions are rather weak in he later group of countries. Within the NMS, it is interesting to note the extremely low rate of strikes in Poland between 2000 and 2003. With the exception of 2000, the same is true for Hungary as well. However, at the beginning of the 1990's the industrial actions in Poland were much more frequent compared to Hungary. Within the former EU-15 the highest intensity of industrial actions were registered in Spain, France and in the UK.

Table 10.11

Main causes of industrial action in the countries participating in the Leonardo project

Country	Year	WEIGHT		Effective number of confederations
		1	2	3
Belgium		*n. d.*	*n. d.*	*n. d.*
France	2000	Pay (33%)	Working time (29%)	Working conditions (15%)
	2001	Pay (37%)	Job losses (21%)	Working time (15%)
	2002	Pay (39%)	Job losses (29%)	Working conditions (21%)
	2003	Pay (37%)	Job losses (27%)	Working conditions (20%)
Germany		*n. d.*	*n. d.*	*n. d.*
Spain	2000	Not arising from collective bargaining (57%)	Issue not strictly linked to employment relationship (24%)	Arising from collective bargaining (19%)
	2001	Not arising from collective bargaining (69%)	Arising from collective bargaining (31%)	-
	2002	Issue not strictly linked to employment relationship (88%)	Arising from collective bargaining (6%)	Not arising from collective bargaining (5%)
	2003	Arising from collective bargaining (63%)	Not arising from collective bargaining (37%)	-
	2004*	Arising from collective bargaining (87%)	Not arising from collective bargaining (12%)	Issue not strictly linked to employment relationship (2%)
UK	2000	Pay (77%)	Redundancy (11%)	Staffing and work allocation (5%)
	2001	Working conditions and supervision (33%)	Pay (27%)	Redundancy (17%)
	2002	Pay (89%)	Working conditions and supervision (8%)	Redundancy (1%)
	2003	Pay (84%)	Working time (13%)	Staffing and work allocation (1%)
	2004	Pay (84%)	Redundancy (12%)	Working time (2%)
Hungary	2000	Pay	Plant closures	-
	2001	Pay	Plant closures	-
	2002	Pay	Privatisation	Plant closures
	2003	Pay	Plant closures	Job losses
	2004	Pay	Privatisation	Job losses
Poland	2003	Wage arrears	Job losses	-
	2004	Wage arrears	Privatisation	-
Slovakia	2001	Pay	Employment	-
	2002	Labour law reforms	Government social policy and budget	-
	2003	Rail restructuring	Overall government policy	-
	2004	Transport subsidies	Pay	-

* First 8 months.

Source: EIRO 2005.

10.2. Actors and institutions in the SME-sector: an international comparison at European and country level

The previous sections gave a general overview of the social actors and institutions (trade unions and employers' associations, collective bargaining – with a special focus on wage bargaining, employees' representation and participation, tripartite consultation and concertation bodies, etc.) which may play a benchmarking role for SMEs in relation to labour relation standards. We are aware that it is not possible to copy in a mechanical way actors and institutions of labour relations functioning in medium- and large-scale firms, therefore we suggest to use the so-called 'intelligent or reflexive benchmarking' instead of a mechanical version of it.[43] The other important issue reviewed in the previous section was related to the similar and distinctive characteristics of the labour relations system between the EU-15 countries and the new Member States involved in the Leonardo Project.

The analysis of the importance and dynamism of the SME sector has frequently highlighted their significant contribution to job creation. For example, the second chapter indicated that both at the EU- and individual country-level SMEs generate at least two thirds of employment. The factors explaining the employment generating capacity of SMEs are the following:

- The increasing share of the 'service sector' within the economy, in which SMEs are dominant in comparison with the industrial sector.
- The tendency for 'de-mergers' of large firms, which speeds up the outsourcing of non-core activities, and means a variety of different forms of organisation disagregation becomes increasingly common; this process results in a shift in the importance of the SME sector.
- SMEs are predominant in certain new economic sectors such as new media, software development, etc.
- The dynamism of 'industrial clusters' or 'industrial districts' or 'growth poles' representing old and new forms of network type cooperation characterising both the Old and the New Economy. In this type of cooperation, SMEs are playing a key role.

This is not at all a new phenomenon. "The developing entrepreneurship pillar of the Commission's 1999 Employment Guidelines states that: «The development

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[43] "Reflexive benchmarking or intelligent benchmarking as it is also called is less about deciding 'what is best' or 'what universal truth' can be derived from comparison. The identification of best practice is not a primary goal of reflexive benchmarking; instead it has to do with getting to know more about various institutional solutions in different economic structures. Particularly, in a situation of fundamental transformation processes, mechanistic benchmarking is hardly possible, as institutions are becoming increasingly fragile. The aim of reflexive benchmarking is to be able to gain a better understanding of one's own solutions, their strengths and weaknesses, when seen in the light of what others do, and what options they see. Such an understanding can cause policy-makers to assess institutional solutions of their own system much more critically and may help them to deliberately imagine and act on different strategies." Schienstock. 2004:18.

of new enterprises, and the growth of SMEs, is essential for job creation. This process must be promoted by encouraging greater entrepreneurial awareness across society, by providing a clear, stable and predictable set of rules (...) The Member States should also reduce and simplify the administrative and tax burdens on SMEs.»"[44]

Despite the intensive interest regarding SMEs, the quality of our knowledge about labour relations within this sector seems to be generally low. The aim of this section is to identify some characteristics and recent developments in the labour relation practices of SMEs, with a special focus on collective bargaining, relationships between employers and employees and employees' participation. The issues investigated include

- Collective bargaining coverage rate in SMEs.
- Employees' direct representative organisations (e.g. works councils).
- Employers' and trade unions' attitudes towards labour relations institutions: individualisation and informality of employer-employee relationships.

10.2.1. Collective bargaining: coverage rate and procedures

The national system of labour relations reviewed in the previous sections is an important factor in shaping the position of SMEs with regard to bargaining coverage. As might be expected the coverage rate of collective bargaining in the SME sector is higher in those countries participating in the Leonardo project which, despite the recent tendencies towards decentralisation, still have a more centralised bargaining structure, like France, Germany and Spain. In these countries collective agreements signed at national or sectoral level tend to be applied in small enterprises as well as in larger ones, because such agreements may be extended to become binding on all companies in a sector, whether members of the signatory organisation or not, and regardless of size (e.g. in France). In Spain, SMEs are covered by collective agreements in the same way as other companies, since sectoral agreements are applicable to all companies and workers in an industry and not only to members of the signatory organisations (however, labour relations experts and trade unions doubt whether sectoral agreements are actually implemented in the majority of small firms).

Following the logic of the interdependency of the centralised or decentralised character of the national labour relation system and the bargaining coverage rate in SMEs, it is not surprising that the collective bargaining coverage rate in SMEs is extremely low in the UK. In this country the labour relation system is voluntaristic or deregulated. When we want to quantify the bargaining coverage rate in the SME sector, only a limited amount of data is available and therefore these are

[44] Source: EIRO 1999:1.

scarcely comparable. This is true in the case of our project too. In spite of these methodological difficulties, we may identify the following common patterns. There is a direct relationship between the company size and collective bargaining coverage rate. As the size of the companies increases, so does the bargaining coverage rate. In the smaller firms, and especially in those with fewer than 20 employees, collective agreements are the exception. The 'size-category effect' is valid in the Hungarian case too; for an example, see the following table.

Table 10.12

Collective bargaining by company size (1998)

Size categories of firms (number of employees)	Share of companies with collective agreements
5–20 persons[1]	0.1%
20–49 persons	1.1%
50–299 persons	11.7%
300–499 persons	46.4%
500–999 persons	67.3%
1000 and more	75.4%

[1] Data on collective bargaining is often not available in the case of firms employing less than four persons.

Source: Neumann 2002:6.

10.2.2. Collective representation: the case of works councils

As far as the establishment of works councils is concerned, in all European countries – with the exception of Sweden – there is a *minimum workforce-size threshold* for the creation of this institution of participation. In the Leonardo Project countries, the lowest threshold for works councils' establishment is in Germany, with 5 employees; in France, Hungary and Spain it is 50 and in Belgium 100. In UK there is no general or statutory system of information and consultation. Beside the 'threshold' the other essential feature of works councils is the following: whether these institutions of employees' participation are established automatically in all establishments satisfying the threshold criteria or must be *triggered (or initiated)* by the social actors of labour relations (e.g. employees, trade unions or employers). The establishment process is basically automatic in Belgium and France but in the majority of the countries must be initiated by employees/trade unions; e.g. as in Hungary, Germany, Poland and Spain.

In spite of the fact that in the majority of the countries involved in the Leonardo Project, the threshold is 5, 50 or 100 employees, works councils are important participatory forums mainly for employees in the large firms (LSE). Even though the law provides the basis for works councils in such countries as Germany, France, Hungary and Spain, in SMEs only a tiny minority of firms estab-

lishes works councils. "In Germany, for example, the law provides statutory rights in firms with five or more employees. The establishment of a works council is not mandatory and according to survey figures from 2002, works councils cover just 11% of all firms and 50% of all employees within the law's scope. Coverage is related to the size and the age of the firm, with smaller and newer firms much less likely to have established a works council. In France, the Ministry of Labour estimates that of small firms (10–19 employees) less than 20% have a form of workplace representation for employees. This percentage increases to 56% for firms with 20–49 employees and to 90% in firms with more than 50 employees." (Industrial Relations in Europe 2004:22.) The situation is rather similar in Hungary. However, the relationship between the size of the firm and works councils points to another vital issue. The rate of the presence of the works councils has a close connection with the trade union presence in the firms surveyed. According to the data from a statistically representative survey carried out in 2002 in Hungary, the share of works councils, trade unions and collective agreements indicate a similar trend: their share increases with the size of the firm. (See Table 10.13.).

Table 10.13

Distribution of works councils, trade unions and collective agreements by size category of firms in the manufacturing sector in Hungary (2002)

Size of the firm (persons)	N° of responders	Works councils		Trade Unions		Collective agreements	
		N°	%	N°	%	N°	%
50–99	1,082	288	27	261	26	243	23
100–249	882	456	52	389	46	359	41
More than 249	632	531	84	511	82	469	74
Total	2,596	1,275		1,161		1,071	

Source: Benyó B.A munkavállalói részvétel intézménye: az üzemi tanácsok helyzete Magyarországon, (Institution of Employees' Participation: Situation of Works Councils in Hungary), *PhD Dissertation,* Budapest: Budapest University of Economic Sciences and Business Administration – Department of Social Policy and Sociology, p. 75.

10.2.3. Employers' and trade unions' attitudes towards labour relations institutions in the SME sector

Employers' organisations generally view favourably the fact that *small firms*, unlike their larger counterparts, represent a high level of flexibility in regulating the employment relationship. This high level of flexibility is the main factor responsible for their economic success. Employers' organisations are in favour of even further deregulation of SMEs. See two examples of this attitude of employers' organisations towards SMEs in the following box.

Box 10.5. Employers' organisations and SMEs

Most UK employers' associations have traditionally preferred a deregulatory approach to industrial relations. Since the current Labour Party government made public in 1998 its various proposals for legislation to provide a minimum floor of employment rights, employers' associations have lobbied for the legislation to be watered down, especially where it applies to SMEs. Thus, for instance, firms with under 20 employees have been removed from the scope of proposed trade union recognition regulations.

In France, employers' organisations, and particularly the SME-specific CGPME, have demanded that social security contributions levied on SMEs should be reduced, and that they should be given more flexibility by alleviating their legal obligations, simplifying bureaucratic procedures, and raising the thresholds for obligatory employee representation.

Source: EIRO 1999: 10.

However, in some cases the employers are *positive towards trade union activities*, especially in sectors which have a strong institutional heritage of collective interest representation, as shown by the example of a Belgian employer operating in the construction sector:

Belgian construction sector company, 100 employees

"I totally agree that my workers are members of a trade union. They need to have their rights defended. But dialogue needs to be always the main way of communication. In our company there are also many ways of informal contact; we go and have a drink together regularly, f.i. There is an open atmosphere" (owner/employer).

In spite of the favourable opinion of employers' organisations concerning small firms, these associations have *various problems in the SME sector*. In terms of their own membership among the SMEs, mainstream employers' organisations often face several problems. For example, in Germany a key issue is the representation of the interests of SMEs. According to the survey results, important segments of the small firm sector feel that they are not represented in the traditional employers' associations.

In relation to the trade unions' attitudes towards SMEs, the mainstream opinion is as follows. They have difficulties in creating both workplace interest representation institutions (e.g. collective bargaining) and employees' participation structure (e.g. works councils) especially in smaller firms. The opinion of a Hungarian trade union leader interviewed in the clothing industry sector summarises well the difficulties of implementing collective interest representation structures in the workplace in the post-socialist economies of the NMS countries.

In addition, in the case of post-socialist (NMS) countries involved in the Leonardo project, the company case studies indicated intention of owners/managers of small firms to individualise employment relationships with their workers was in line with the ambition of their employees too. This latter phenomenon can be attributed to employees' lack of trust towards their trade unions and due to the informal character of the employer-employee relationship.

Hungarian Trade Union of Workers in the Garment Trade

"When big clothes factories closed down many people registered themselves for unemployment benefit, but at the same time they started working in the black economy. It is hard to make these people understand what disadvantages they can suffer without being registered employees because until they have no other alternatives they will not leave their black sector job. Frightening them with the ghost of being without a pension and health insurance is fairly useless until they are forced somehow to deal with this question. Many of those who are employed in the black economy are retired or have this as a part-time or a second job. This system works reasonably well as long as employers pay correctly, but alongside this there are many unstable elements. (...) The badly defined job contracts and unregistered salaries press employers to exclude any third party from the relationship between themselves and the employees. This often leads to the high vulnerability of workers. *"Many people who contact us report delayed or unpaid salaries." (Vice President)*

In relation to the trade unions' role in the SME sector, the issue of worker protection in smaller firms is important in the EU-15 countries too. For example, Belgian trade unions are seeking to have the thresholds for the creation of various representative structures or the application of other employment rights lowered. It is interesting to note that the French trade unions are acting to reduce inequalities of working an employment conditions between employees of SMEs and larger sized companies. In the UK the Trade Union Council (TUC) has campaigned during the 1980s and 1990s for the establishment of minimum standards in the work place, including for SMEs. Another recent British initiative to strengthen the trade union presence at firm level is the Union Learning Fund (ULF). This fund was established in 1998 by the new Labour Government with the purpose of involving trade unions in the government's lifelong learning programme. Money is provided that generates capacity-building by these trade unions to encourage and enable learning that promotes employability and inclusion for individuals, and helps employers with productivity and competitiveness. The most obvious manifestation of this capacity-building has been the creation of Union Learning Representatives (ULRs), who, since 2002, have the same rights as other workplace trade union representatives, such as shop stewards. Working with employers, the function of these ULRs is to facilitate and encourage employees to participate in learning. It has been suggested that these ULRs offer "potentially the most significant statutory role for workplace unionism since the recognition of health and safety representatives in the mid-1970s [and] may have the potential for furthering union revitalisation." (Warhurst 2005:2)

For the opinion of employers and employees on labour relation institutions, see the following box containing quotations from the company case studies.

Polish ICT firm, 120 employees

There are no trade unions in the firm (and never were). In the intervewee's opinion, there is no need for the existence of such a representation for employees, because *"as the employers, we try to fulfill our obligations towards our employees consistently"*. The owner thinks that trade unions should function; however, *"they should be created outside the firm's structures"*. There are neither informal employees' groups nor individuals representing the whole staff.

Polish funeral service firm, 64 employees

No workers' organization exists in the enterprise; there are no trade unions. Trade unions are viewed by the owner as a threat to the functioning of the enterprise (*"If there were trade unions I would have to finish my activity. Firstly, the firm is too small, and secondly, it could not survive the trade unionists' economic demands"*). The existence of trade unions is also viewed as an obstacle in the present functioning of the firm (*"If trade unions had developed, I would have to negotiate, discuss things etc. I would not be able to concentrate on the firm's management*"). At the same time, there is no representative of the whole staff of the enterprise. The entrepreneur is of the opinion that maintaining individual contacts with all the employees is sufficient.

Polish tourist company, 23 employees

The company studied has no official trade union representation. There is also no one who, informally, might represent the staff. It is the view of the owner that there is neither such a need nor any desire on the part of employees. *"This is a small company. Employees can turn to me at any time. The door is always open for them. Moreover, they are all aware of the fact that I did not build this company at their expense, at the expense of their earnings. I meet my obligations with respect to employees 100%." (owner/employer)*

Hungarian clothing company, 6 employees

The following opinion can be said to be typical: "*I do not think we need trade unions, we can handle things informally. If we cannot we can still quit and choose to be home-workers." (employee, sewer)*

Spanish food company, 165 employees on average, but 320 in the summer season

"At the moment, we don't have any conflict. Over the five years that I've been here, there hasn't been any conflict on the labour level. There is no trade union. I don't know if this gives us advantages or not. The CCOO, the UGT have been here... but they didn't hold a meeting. Sometimes this brings us problems in respect of labour risks... I'm not going to tell you that the relations are too good, because nothing is ever too good, but we can't complain and this is also reflected in the proper working of the company. On a labour level, the company works extremely well and also, more than ever, in one of the most important aspects: the daily working atmosphere. We also have to bear in mind that this is a small town. The people who work here are familiar, they know each other... and it's normal for there to be a relationship on the work level and also on the level of the town. An influencing factor in the good atmosphere is that the friendly atmosphere has always been here" (employer)

Spanish tourist company, 3 employees

"Mónica and I don't have what you would call a purely boss-employee relationship. We worked together at another company for some time, so our relationship is more like two heads are better than one. And together we will be able to achieve more than a single person. There is a lot of trust and confidence, and I've asked her opinion on all of the changes that I have thought about making, and other times she has convinced me that it would be better to do something else that I hadn't thought of. I think that the relationship has to be like that. It doesn't mean that if everything up until now has been white, it is now going to be green. And I even think that it is better for her. Since we spend so many hours together and have hit it off so well, when she has to do something, she doesn't have to ask my permission or ask what I think if she does it – the final cause is going to be the same as if I had decided myself. She has demonstrated to me that she is a total professional and knows how to do things, and I have full confidence in whatever she does" (owner/employer)

The interviews quoted above from the company case studies indicate the low awareness or the lack of need both on the part of employers and employees for the establishment and role of official institutions and collective actors of labour relations. The lack of official institutions of labour relations does not mean a lack of social consent between the actors involved in the labour process. In other words, we have to stress *the informality of employment relations and the rather paternalistic pattern of management in the firms surveyed.* In addition we have to note that in the ICT sector where the smooth communication and the employees expressed their interest in a more intensive participation in the work-related decision-making. For example, the lack of involvement which employees criticised in the managerial decisions is reflected by the following opinion of a manager working in the Hungarian interactive media company:

Hungarian ICT company, 62 employees

"Compared with my previous workplace it is a very bad thing that here we don't know where we are going. We give a lot of information to the management, but they inform us sometimes just at the last minute. Often in a given situation we don't know what to do to help the company's long-term aims." (digital media manager)

Summarising the key patterns of the Labour Relations Systems in the countries participating in the project, the following general characteristics should be stressed. Evaluating the widely known collective actors (i.e. trade unions, employers' associations) and institutions of the LRS we found varieties of practices. In this relation it is worth noting the dominance of the so-called dual-character of LRS (e.g. in Belgium, France, Germany, Hungary, Slovakia and Spain). In these countries trade union and the institutions of employees' participation (Works Council) co-exist in the company practice. The single (UK, Poland) or mixed system function only in the minority of countries. In the case of the employees' participation the size-related threshold varies, too. For example in Germany the threshold is 5 employees and in Belgium 100 persons. The coverage rate of collective bargaining is more stabile and better proxy indicator of trade union influence than the density rate. The collective bargaining rate is higher in the former EU-15 countries compared to the NMS. In the latter group of countries the firm-level bargaining dominates. Evaluating the collective bargaining coverage rate and the presence of collective representation in firms (collective representation = presence of trade unions and/or Works Council), a clear impact of size-category of the firms was identified: as the size of the firms grows, the presence of the official collective representation is weaker. However the lack of 'official' collective representation in the SME sector does not mean the lack of efforts to create social consent in the workplace. The company case study experiences revealed varieties of practices. In some countries (e.g. Belgium) the employers' attitude towards trade unions was rather positive. In other countries (e.g. France, UK)

trade unions support such new initiatives which may improve the employees' "labour market value" independently of the size of firms (e.g. the example of the British Union Learning Found). This initiative reflects the new role seeking efforts of trade unions how to adapt to the global competition pressure which is marked growing uncertainty and instability of employment and forced employees to improve their flexibility via participation in the life-long learning. However in the majority of firms investigated in the NMS – with the exception of the ICT sector – both owners/employers and employees preferred the "informal regulation" of employment relations. In this respect we have to note that the extremely fast development process of SMEs in these emerging market economies in Central Europe did not allow the social and economic actors of the LRS to focus on building of institutional framework in the sector. The core interest of the economic and social policy makers was devoted to various aspects of the Foreign Direct Investment based modernisation and the development of the SME sector received peripheral attention.

ANNEX V.1.

Varieties of forms of control/supervision in the firms investigated

The previous section on the Labour Relations System characterising of the SME sector informed us about the complexity of regulations instead of lack of them. However, even in the most surveyed countries in the EU we dispose very little precise data on this institution. Similarly on the forms of control in the micro, small and medium sized firms very limited internationally comparable experiences are found. In this respect we share the following opinion: "... the conventional wisdom often suggests that employment relations in micro and small enterprises are easier and happier, since they are based on 'ease communication, flexibility of work roles and identification of worker with company objectives'. Obviously, this is not always the case, but nevertheless it certainly can be argued that the small size associated to micro and small enterprises imply certain set of characteristics that make this type of enterprise different from the larger ones."[45] The core evidence of the literature review suggests that especially in the micro and the small sized firms – in comparison with both medium and large sized companies – the functions of ownership and management are blurred and the owner/mangers often themselves are practicing the various business functions (e.g. production, planning, organising, marketing, administration, etc.). This combination of business functions in the small firms has often interpreted – mistakenly – as easier or harmonious employer-employees relations.

The experiences learned from the company case studies carried out in various sectors (e.g. manufacturing, services, ICT etc.) are indicating a great variety in forms of management and control in the labour process. On the basis of the case-study evidences we would like to avoid over-generalisation of the lessons learned from our findings. However, these examples are illustrating the important roles of such variables – in shaping patterns of control – as family role[46], size, types of

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[45] Employment Relations in Micro and Small Enterprises in the EU – Literature Review (2002) Dublin: *European Foundations for the Improvement of Living and Working Conditions – Main Results,* p. 1.

[46] In spite its „anecdotic character", it is interesting to note, that when Berlusconi the Italian Prime Minister – who has well-know entrepreneurial background – was asked why he keeps monopolistic position in the Italian media (especially in the TV) having such high position in the country political arena, he answered to the question: „I am eager to give up, but my „family does not let me to do it." (See in details: Stille, A. (2003) Italy: The Family Business, *The New York Review of Books,* Vol. 1, Number 15, pp. 23–24.

activity, sector, age of the firm or cycle of the development trajectory of the company etc.

Before presenting the empirical results of the company case studies carried out in the Leonardo Project countries, it is worth to briefly present an attempt to develop a typology of control in the labour process in the small firms. This classification is based on the combination of the following two dimensions of control: "extent of employer's economic dependence upon employees" and "ability of employees to resist the exercise of the owners' prerogative". (Goss 1991, quoted by Employment Relations 2002:4–5)

"'*Fraternalism':* This control strategy is common where is high level of employer dependence on employees who provide skills and other inputs crucial to the success of the enterprise. This form of relation is typical in certain high-tech or advanced service enterprises, where differences between worker and boss are relatively modest. As it can be seen, this form of relation is not due to the personalities of those involved or good person-to-person relations, but rather an outcome of the particular productive circumstances.

'*Paternalism':* ...this employment relation exclusively from the agricultural sector, where the employer is of higher social standing and the employees are dependent on employers for their livelihoods and even for housing, with little alternatives of employment in the area. Meanwhile, the employer is responsible for the well-being of the employees in a wide sense. This, paternalism as a control strategy tries to secure employee identification with the employer's aims by strong personal relations and mutual duties extending beyond work to life in general.

'*Benevolent autocracy*'. Here, the employers' control is based on, actually, their role as employer. The closeness of the links between employers and employees is emphasised but only within the employment relationship, since the relation is not extended beyond the workplace. In this relation, people involved accept the imbalance of power between employer and employee as a fact of life rather than as a basis for struggle or negotiation where, at the same time, relations are relatively informal and friendly but always restricted to the enterprise's boundaries... this type of employment relation is the most typical amongst micro and small enterprises.

'*Sweating*': This ... form of employment relations is characterised by a dominant power by the employer and a weak position by the employee. Here, employers can replace employees easily and therefore have no incentive to develop narrow market relationships. Therefore, labour costs are more critical than labour stability or trustworthiness." (Goss 1991:8–10)

Evaluating the results of the company case studies, we may only partly use these categories of control. Naturally, due to the fact that the agriculture as a sector was omitted from the investigation, the 'paternalism' was not found in any company cases. However, such forms control as 'Fraternalism', 'Benevolent autocracy' and 'Sweating' were identified in the firm-level practice. In addition, there are other particular factors shaping the forms of control and management, such as the form of

ownership (more exactly corporate governance), types of activities (i.e. sector-specificity), size and the "cycle of the development path" of the firm.

The case of the Belgian construction firm the so-called 'benevolent autocracy' of the "family ownership", as a kind of control strategy was identified[47].

Belgian construction-sector company, 100 employees

"One subdivision is managed by my daughter's husband. First he has been working for three years with us in the flooring. Now he has the management over Multistep. After that we started the subdivision Multidecor, targeted exclusively to private clients. My son Peter is the manager and there are now working 25 high-skilled painters. Our electricity division is called Electrolyse." (...) "We have a large office upstairs where we work with three people, including my son." (owner/employer)

Similar form of control was identified in some other micro-firms, like in the Spanish tourist company, in which the owner/manager is doing everything. The experiences learned from these and other company case studies indicate that micro-firms do not represent single-type of control. In these relations we would like to stress the role of the following important dimensions. In the early life cycle of the micro-firm owner (manager) is practicing almost all business functions (e.g. organising activities, dealing with administration, supervising finances, taking care of client relations, etc.). In relation with the employment relations it is worth noting the importance of close and personal character of the human relations.[48]

Spanish travel agency, 3 employees

"We are a small company where you are the managing director, administration...human resources...everything" (...) "In very large companies, targets are set. I worked with sales targets, but since we are a small company, I don't set sales goals. If the company was bigger, and I could pay more...I'd love it. If I could give the workers everything that the Social Security takes, I think it would be great. But I see the job motivation as the freedom that they have and the flexible schedule". (owner/employer)

Particular form of control was found in such 'Old Economy' sector as the food processing. The Spanish food cooperative case reflects the particular institutional influence of the well-known "Mondragon-model" of industrial cooperatives. The so-called "self-managed" or "collective representation" model works well in this medium-sized company.

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[47] The detailed description of company case studies see in ANNEX I.1!

[48] This personal 'nexus' in the micro-firms is quite often erroneously identified with the harmonious social relations, and conflicts raised in these relations are mainly interpreted as merely emotional/cognitive and/or communicational in nature. This approach of the employment relations in the micro-firms underestimates the role of interest and power in the employers-employees relations.

Spanish food company, 165 employees on average, but 320 in the summer season

"From among all members, twelve are elected to form the management board. Of these twelve members, one is appointed chairman, who holds the highest position in the cooperative. Board members hold the representative and decision-making powers of the cooperative. Then there is the technical team and the workers: the manager, the commercial department, the administrative department and the technical agricultural department... more or less the same organization chart as in any other company. Based on the management board, we operate like a company."

"We implement shared management, a double-headed management, between my companion and me. He goes where I can't and vice versa. We work as a team. Nothing is defined. No, there is one defined area, that of marketing, which is carried out by my companion and a defined area of administration that I deal with, both in our section and in the other two. He is the person responsible for marketing fruit and vegetable products but there are certain things that get mixed together but for the moment, and after five years, there isn't any conflict."

"Our democratisation of the company isn't common practice in other companies, in other words, anyone can be chairman, irrespective of his economic strength, his productive strength, or anything... you are simply a farmer with just one hanegada and very little production and you can be chairman of the cooperative, you can succeed in being elected." (manager)

In some cases we could identified the management style which takes the form of 'paternalism' which is limited exclusively to the working activity and does not take care the non-working activity of employees.

Polish tourist company, 23 employees

There is no formalized system of employee's evaluation. This businessman maintains that in his treatment of employees, he tries to be "like a father." He is aware of the fact that there are people working in his company who have various types of problems, but most of the staff is reliable people who have never let him down. *"I rarely have any reservations with respect to tour guides. They usually know exactly how to manage customers, they know how to approach them, make contact, and it is necessary to remember that these are very diverse people — bank directors once, doctors another time, and bricklayers yet another time. However, drivers do not always know how to get to a customer psychologically." (owner)*

The company is organized like a family where the proprietor (father) knows all the faults, weaknesses, and involvement of people at work. Thus, formalizing such assessments is totally unnecessary. *"I know perfectly well how a given worker does his job because I am with him every day. I am the only one in the company who decides who gets what kind of a bonus." (owner)*

In the original sense of 'sweating' type of control employees have asymmetrical dependency from the employer. However the cases of the Hungarian clothing firms and of the Polish funereal company are representing only partially this type of control strategy. Even in these cases, in spite to the close supervision methods, employees have certain amount of autonomy.

Hungarian clothing company, 6 employees

Four employees work in the manufactory of the company and the other 2 employees work as a home-worker. All of the employees are female, and the average age is 52 years. Beside their professional qualification, all of them have great experiences as a sewer and dressmaker as well. In this profession the older employees are the more appreciated they are. The owner works only with older women, because their functions in their family are not too emphasized anymore. *"I'm not willing to employ young women, because I know how things going if you have a kid! I prefer elderly workers, because they are got over it." (owner, managing director)* The other reason of the high average age of the employees is the low legal salary. *"I had three employees, who had left this company, but I could absolutely understand them. I could pay them just a minimum wage legally, and they were young, so in theirs case, because of the low amount of the social security payment their maternity or child care leave benefits would be low as too." (owner, managing director).* These employees have left not just this job, but the whole sector as well.

Polish funeral service firm, 64 employees

There is no formal system of performance appraisal. The employees' performance assessment is not formalized, because in the entrepreneur's opinion he *"knows his workers well enough; they have been working for me for years, know my requirements and keep trying to comply with them*". Performance appraisal and thus usefulness of the employee is usually done on basis of the criteria connected with a competence for consumer service and work involvement. It is also important that the employees do not become routine, which regarding the activity's specification is the most important criterion for the owner. *"I keep observing whether they are not routine and become robots, who do their jobs without any emotions." (owner)*

Here we have to stress the significance of size category of firms in shaping the patterns control strategy. However the 'size category' – in our interpretation – is only a proxy indicator. Its content covers heterogeneous development trajectories. Using the results of our company case studies carried out in the Leonardo project, one type of the growth pattern is represented in sectors where various business functions are well formalised and based on an already accumulated and codified knowledge (for example: activities organised by 'fordist' or 'neo-fordist' paradigms, in both manufacturing and service sectors. In this case growth is reflected in increasing complexity of relations between employers/owners and employees and requires the use of new but already available and largely standardized management tools to organise work and create social consent in the firm. This situation is well illustrated by the Polish pasta company characterised by closed supervision practice based on the combination of financial incentives and personal control.

Polish food (pasta) company, 110 employees

"I care less for efficiency than for the quality of work. Unfortunately, employees are paid for efficiency. The quality of work cannot be executed with the help of rewards, and that is why, I'm forced to punish employees for bad quality of work. If I don't punish an employee financially, he won't comply with all the rules. Unfortunately, it is necessary because in production, exact cycle is essential." (managing director)

The company case studies call the attention to the growing importance of the outsourcing of the non-core activities of firms. Although outsourcing is a relatively new phenomenon in the transition economies (Poland, Slovakia, Hungary), it seems to us that it is diffusing quite fast among SMEs. Here must be stressed that, on one hand, it can provide greater flexibility in use of resources, on the other hand, it requires the adoption of new coordination types between the forms of core functions retained within the firm and the outsourced ones.

Polish ICT firm, 120 employees

„We outsource some things, like security and safety of health services, or cleaning. We are considering outsourcing accountancy and personnel management activities." (owner/managing director)

As we have already mentioned the 'size category' is a proxy indicator which in itself can hide other important aspects like the nature of activities which could be predominantly new and in many cases not formalised. In the New Economy sectors such as ICT, New Media, etc the owners/managers cannot use easily available and 'ready-made' management tools; they have to cope with several particular problems related to the growth of their companies. It means that they have to make more efforts to create social consent with their employees. In addition they must invent new forms of coordination, including of creation of new roles in organising work – using the method of 'trial and error' – to ensure the successful coordination in production or service providing process. Due to the lack of available management methods and lack of time to create, and use new ones, these companies are often forced to imitate and copy untested management methods borrowed from abroad which often require learning efforts from the participants of the labour process.

Hungarian ICT company, 62 employees

In the period of fast growth, the owners hired an organizational consultant. In cooperation with an international auditor firm the company tried to create a more efficient organisational model.

First they tried to implement a matrix-organisation, later they used the project-based work organization, and presently this type of organisation is functioning. According to this model working of the functionally separated organizational units (Production, Development, Conception, Operation, Back Office, and Project management) is harmonized according to the needs of the incoming projects. The work and the related tasks are distributed at the weekly project meetings. The preconditions of the system's operation are the effective information flow, the correct documentation and tracking of the individual tasks, and the definition and maintenance of the norms regulating cooperation.

Because of the rapidly changing external conditions it is hard to identify the necessary sources in advance, which results numerous organizational/logistic conflicts. At the operational level of project type work these are reflecting in information disorders, delay in carrying out tasks and problems in competence shortage. Frequently happens during the project that the priority of the tasks is changing in the progress.

In relation with the creation of new coordination-control mechanisms we intend to indicate the growing importance of such organisational innovation as 'communities of practice' In the case of the ICT sector, the knowledge development and transfer have particular significance. Such new forms of coordination are emerging as "autonomous working group" where the collective (social) norms are regulating the working practice. I addition the so-called "communities of practices" as a special form of cooperation based on developed social capital facilitates the creation and sharing non-coded knowledge and skills. See the examples of the Spanish ICT firm playing leading role in the ICT sector.

"Social capital is a resource for individual and collective actors created by the configuration and the content of the network of their more or less durable social relations. Comparing social capital with other forms of capital (e.g. financial, physical) the following similarities exist:

– Social capital is a resource into which other resources can be invested with expectation of future, albeit uncertain retains (e.g. conference participation → network creation → trust building)

– Social capital is 'appropriate' and to some degree 'convertible' (e.g. practice transfer)

– Like physical and human capital, but unlike financial capital, social capital requires maintenance to remain productive." (Lesser 2000:5)

Spanish ICT company, 30 employees

"The technical personnel are not responsible for selling, but they help sell. For example, to sell a CAD system, the salesperson detects that a company may have a need, but as part of the sales process, has to convince the customer technically, and this is where the technical personnel come into play, demonstrating the product, showing it to the company's technicians, and clarifying any doubts...and therefore the sales process is a combination, with a commercial facet and another technical facet."

"Here we try to get people to work as a team, although each has a role, the borders are not completely defined, there are more or less a series of limits, but they aren't defined. There are certain jobs that can be done by technical personnel or that can be done by a salesperson. It almost depends more on the person than the definition of the role." (general manager)

In relation of the maintenance of the social capital it is necessary to stress that its content is radically different from other forms of capital (e.g. financial, human, etc). "Without providing time, energy or other resources into social capital, the connection between individuals tend to erode over time, much like oxidation on a piece of steel. However, unlike human capital, maintaining social capital requires participation of least two parties; the recipient alone can not update it independently from others." (Adler – Kwon 2000:33)

The 'community of practice' can help to develop social capital in the following way (Lesser 2000):

1. "The community serves as an intra-network clearinghouse by identifying those with relevant knowledge and helping individuals within the community

make connections with one other. This is particularly valuable as the organisation grows and goes virtual and individuals find it increasingly difficult to know who knows what.

2. The community acts as a reference mechanism, quickly enabling individuals to evaluate the knowledge of other members without having to contact each individual within network.

3. Communities of practice can help connect individuals from outside network to those who are already identified as community members. This function can be critical, especially for new employees who are looking to identify individuals who hold the firm-specific knowledge needed to be successful in their new roles.

4. By being able to bring people together to develop and share knowledge, the community creates the condition where individuals can test the trustworthiness and the commitment of other community members. Through this process, the community builds its new form of informal currency, with norms and values that are commonly held and serves as conditions of payment that are generally accepted. It is through these repeated interactions that individuals can develop empathy for the situations of others and can develop the rapport with individuals in the community.

5. Communities of practice help shape the actual terminology used by group members in everyday work communication. In addition, they generate and share the knowledge objects or artefacts that are used by community members. Equally as important, communities generate stories that communicate the norms and values of the community and of the organisation as a whole. These stories enable new members to take cues from more experienced personnel and allow the development of a community memory that perpetuates itself long after the original community members have departed." (Lesser 2000:13–14).

In summarising the company case study experiences and other research evidences, the following Box presents the key features and rationales characterising the control strategy or managerial style in the SMEs.

Distinctive Characteristics of forms of Control and Management Supervision

– Size category of firms in close relation with close relation with the type of their activity
– Core role of the Entrepreneur (Owner/manager)
– Close personal ties between owner/manager and employees (but this does not mean permanent "harmony" of employment relations)
– Strong presence of social relations modelled by the institution of family
– The SMEs represent a heterogeneous group of firms – Avoid the over-generalisation of the firms belonging into this sector

Rationales

– The key role of the sector and activity in shaping the forms the management – and supervision
– The nature of knowledge and skill exploited in the firms' activity (the share and importance of the formal and non-formalised knowledge)
– The time-dimension: firms' development cycles
– The role of the market segments: global (European), regional and local

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Part VI

KNOWLEDGE USE AND INNOVATION IN THE SME SECTOR

11. Characteristics of SMEs' Knowledge and Competence Development

Evaluating training practice in general, and particularly in the SME sector, no social actors would question the importance of developing human resources – including skill and knowledge improvement as a part of life-long learning – in order to increase the competitiveness of the European economy (Lisbon Summit guidelines, 2000). This consensus among social actors is based on the new growth theories[49], according to which economic development or wealth accumulation is dependent more on the intensity of the accumulation of human capital (defined by the combination of levels of knowledge, skills and competencies of the work-force) than on the rate of accumulation of physical capital.

11.1. Training and knowledge use practices at a European and national level

One of the core problems concerning SMEs' training practices is the lack of financial resources and the low-motivation of managers to invest in skill development. This is the so-called 'competence paradox', according to which firms investing in the development of their employees' competence simultaneously increase the risk that these employees will leave the company. Contrary to the

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[49] "In the traditional theory, new knowledge plays no role; rather, static efficiency, determined largely by the ability to exhaust scale economies supports economic growth. By contrast, the new theories are dynamic in nature and emphasize the role that knowledge plays. Because knowledge is inherently uncertain, asymmetric and associated with high transaction costs, divergences emerge concerning the expected value of new ideas. People therefore have an incentive to leave an enterprise and start a new enterprise in an attempt to commercialise the perceived value of their knowledge. A distinguishing feature of these evolutionary theories is the focus on change as a central phenomenon. Innovative activity, one of the central manifestations of change, is at the heart of much of this work. Entry, growth, survival, and the way enterprises and entire industries change over time are linked to innovation. The dynamic performance of regions and even entire economies is linked to how well the potential from innovation is tapped." Source: Observatory of European SMEs (2004), p. 12.

traditional quantitative, survey based approach on SMEs' training practices, this analysis aims to better understand this kind of non-formalised learning in company practice, using the empirical experiences of case studies in three selected sectors. One of the most important methodological messages of this research project is that the 'right mix' of both quantitative and qualitative research techniques is able to describe the variety of competence development and training in SMEs.

In identifying and evaluating the importance of the non-formal elements of knowledge creation and development, there is a growing interest in the notion of competence, which "can be defined as the synthesis of knowledge (what you can learn in education), skills (what you gather in your job, at your workplace and in social life from your daily experiences) and aptitude (this is the ability to use this knowledge and skills)" (Argyris 1993). The EU Commission definition of competence basically covers the above listed elements, or some of them, considering competence as the capacity to use qualifications, experience and knowledge efficiently. In our analysis we adopt Nordhaug's so-called 'Competence Chain Model' in focusing on the activities of SMEs aimed at upgrading their pool of competence in the following main fields (Observatory 2003):

a) 'Development of in-house competence', which represents the measures a firm takes to develop the competence base they have available within their in-house human resources,

b) 'External competence acquisition', where firms acquire (buy or access by other means) different external competencies that are outside the firms' boundaries and which are missing internally, but may be considered as essential to maintain competitiveness or simply the survival of the firm (Makó – Nemes 2003).

Apart from this general consensus among social actors on the increasing role of human capital in economic and social development there are many problems, both theoretical and methodological, which make it difficult to understand and assess the role of knowledge in the performance of business organizations in general and in the SME sector in particular. We have to face further problems, when we try to compare and evaluate the situation of SMEs in the EU (15) countries and the New Member States (NMS). The recent phase of enlargement of the EU, which includes countries from Central and Eastern Europe and from the Mediterranean, took place in 1st May 2004. The enlargement certainly opened a new challenging area for social and economic actors, both in the Old and New Member States. In the EU (25), the variety of legal, social and cultural norms both in human resource utilisation and working conditions in a large sense across Europe create unprecedented pressure on policy makers to better understand the new realities. Among many challenges, one of the most important is how to create a more competitive/flexible and at the same time socially stable/cohesive New Europe. To avoid illusions and elaborate comprehensive and workable policies in the field of knowledge and competence development, it is necessary to understand the heterogeneity of practices in EU (25) countries involved in the Leonardo project.

Unfortunately, none of the comparative statistical analyses or comparative data collections includes all EU (15) and NMS. In addition, there is no data for

Slovakia in the Continuing Vocational Training Survey (CVTS: 1999) organised by Eurostat, nor in the European Working and Life Conditions Survey (2001).

Before presenting the general picture of vocational training in the Leonardo countries and in the SME sector it is worth presenting briefly the notions and definitions closely related to training practice. The key reason for this exercise is to improve the theoretical and methodological foundations of knowledge creation, development and use in the practice of business organisations in general and in the SME sector in particular. Another important practical argument is that so far, the overwhelming majority of studies dealing with firm-level training practices have focused their attention mainly on formal training activities that are easy to understand and measure by such formal indicators as the time and financial resources spent on the training, etc. This training supply is provided by educational and training institutions and usually legitimated by various forms of certificates. Finally, it is necessary to mention that the empirical studies conducted in the SME sector have failed to demonstrate a positive relationship between firms' participation in formal training activities and their economic performance and competitiveness.

Unfortunately, there is relatively little comparable data on the knowledge use and training practices of SMEs among the EU-15 and the New Member States (NMS). For example the latest European Continuing Vocational Training Survey (CVTS) covered only the period from 1996 to 2001, and only the following NMS were involved in the project: the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania and Slovenia. Slovakia, Malta, and Cyprus were missing. No new CVTS has been organised since 2001. The new CVTS was carried out in 2005 and the results of the data analyses will only be published in 2007. The other comprehensive survey on working conditions which covered both NMS and ACC surveyed 12,000 workers and was carried out between 2001 and 2002. (The results of this working conditions survey were compared to the EU-15 country working conditions survey carried out in 2000 on a sample of 21,500 workers.) Unfortunately, there was no independent section dealing with training; the issue was analysed only in the 'work organization' section.

The latest CVTS (1999) gives a general overview on various formal (measurable) characteristics of company training practice. These are for example: fields of training, hours spent on CVT courses per 1,000 working hours, internal versus external training courses, types of training provider institutions, composition of employees participating in training courses, relations between training and technology used by the company, etc.Evaluating the time spent on CVT courses by fields of training – comparing the countries participating in the Leonardo project – the following rank order was identified[50]:

1. Computer Science (computer use) – EU-15 average: 17 hours
2. Engineering and Manufacturing – EU-15 average: 16 hours

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[50] In the original CVTS 10 fields of training were distinguished, but for the purpose of our analysis, we omitted – due to lack of more precise information or significance in hours spent on training – such fields of training as 'other' and 'office work'.

3. Personal skill development – EU-15 average: 12 hours
4. Management and Administration – EU-15 average: 11 hours
5. Environmental protection, occupational health and safety – EU-15 average: 9 hours
6. Sales and Marketing – EU-15 average: 9 hours
7. Accounting, Finance – EU-15 average: 5 hours
8. Languages – EU-15 average: 4 hours

Table 11.1a

Hours Spent in CVT Courses by Field of Training (1999*)

Size category of firms	EU-15	Belgium	France	Germany	Spain	UK	Hungary	Poland	Slovakia
Accounting, finance									
Small (10–49)	7	4	9	12	4	6	14	11	n.d.
Medium (50–249)	6	4	5	5	3	9	15	8	n.d.
Large (250+)	5	8	4	2	7	4	9	3	n.d.
Average	5	6	5	4	5	5	11	6	n.d.
Computer Science/computer use									
Small (10–49)	23	23	31	21	17	29	11	13	n.d.
Medium (50–249)	20	17	29	24	17	13	11	9	n.d.
Large (250+)	15	14	17	20	15	13	14	5	n.d.
Average	17	16	20	21	16	15	13	8	n.d.
Engineering and manufacturing									
Small (10–49)	13	32	10	13	17	7	14	16	n.d.
Medium (50–249)	14	28	15	10	12	15	16	23	n.d.
Large (250+)	17	29	15	11	14	21	27	26	n.d.
Average	16	29	14	11	14	19	22	23	n.d.
Environmental protection, occupational health and safety									
Small (10–49)	10	6	5	6	11	14	5	1	n.d.
Medium (50–249)	9	7	7	4	9	13	5	3	n.d.
Large (250+)	9	5	5	3	8	16	7	2	n.d.
Average	9	6	5	4	8	15	6	2	n.d.

* Activity coverage is NACE Sections C to K and O. In: SMEs in Europe, Competitiveness, Innovation and the Knowledge-Driven Society, (2002) (Data 1996 – 2001) Brussels: *Eurostat – EU Commission* – Theme 4, Industry, trade and services, pp. 51 and 60.

Table 11.1b

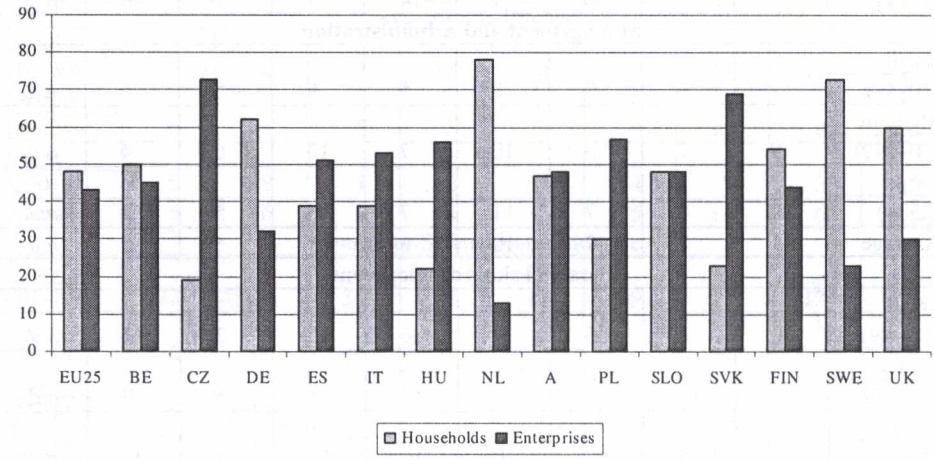
Hours Spent in CVT Courses by Field of Training (1999*)

Size category of firms	EU-15	Belgium	France	Germany	Spain	UK	Hungary	Poland	Slovakia
Languages									
Small (10–49)	3	5	3	2	11	1	8	4	*n.d.*
Medium (50–249)	5	10	6	6	20	0	8	6	*n.d.*
Large (250+)	4	4	7	8	13	1	7	8	*n.d.*
Average	4	6	6	7	14	1	7	6	*n.d.*
Management and Administration									
Small (10–49)	7	4	7	8	5	9	5	4	*n.d.*
Medium (50–249)	9	7	5	10	7	13	6	4	*n.d.*
Large (250+)	12	8	7	11	7	16	5	7	*n.d.*
Average	11	7	7	10	6	15	5	5	*n.d.*
Personal skills development									
Small (10– 49)	10	8	6	7	6	15	2	13	*n.d.*
Medium (50–249)	11	13	8	7	10	15	5	9	*n.d.*
Large (250+)	12	13	10	10	10	13	4	33	*n.d.*
Average	12	12	9	9	9	14	4	22	*n.d.*
Sales and Marketing									
Small (10–49)	10	8	7	12	8	12	14	10	*n.d.*
Medium (50–249)	8	4	8	11	10	5	11	11	*n.d.*
Large (250+)	9	9	11	11	10	8	8	3	*n.d.*
Average	9	7	10	11	10	8	9	7	*n.d.*
Average	15	8	23	22	16	6	21	20	*n.d.*

* Activity coverage is NACE Sections C to K and O. In: SMEs in Europe, Competitiveness, Innovation and the Knowledge-Driven Society, (2002) (Data 1996 – 2001) Brussels: *Eurostat – EU Commission* – Theme 4, Industry, trade and services, pp. 51 and 60.

Time devoted to computer related training is above the EU-15 average (17 hours) in Germany (21h) and France (20h). Next come Belgium and Spain (16h), followed by the UK (15h), Hungary (13h) and finally Poland (8h). Evaluating the

relations between firm size and hours spent on computer related training, with the exception of Hungary, smaller companies are spending more time than larger ones. In relation to computer skills, it is worth emphasising the rate of Internet usage of the whole population, which is an important resource in the New Economy. The importance of a general diffusion of Internet usage – given the lack of resources of SMEs available for training – may facilitate the diffusion of the new working methods enabled by the ICTs. (Koike – Inoki 1990). Comparing individual and company Internet usage, the following asymmetric pattern was found. With individual usage, striking inequalities were identified between countries belonging to the EU-15 and NMS. On the contrary, differences in company Internet usage are still visible but rather modest. (See Figure 11.1!)



Source: Ottens 2005:2.

Figure 11.1. Individual and company Internet usage, 2004

Interestingly enough, in spite of the 'hype' surrounding the Knowledge Economy in the debate, such traditional fields of training as 'engineering and manufacturing' still play a dominant role in company training practice. These courses occupy the second position in terms of hours spent on CVT courses. On the one hand, companies in Belgium (29h), Poland (23h), Hungary (22h) and the UK (19h) spend more time than the EU-15 average (16h) on this kind of training. On the other hand, in the remaining three countries (France, Spain and Germany) the time spent on 'engineering and manufacturing' related courses was below the EU-average. With the exception of Hungary, Poland, the UK and France, there is no linear relation between the size category of firms and the time spent on training.

'Personal skill development' comes third in the ranking of training fields. However, we must treat this data with caution because the category of 'personal skill development' seems to be interpreted differently from country to country.

This is shown most explicitly in the data for Poland; although in Hungary only 4 hours were spent on average on this kind of training, in Poland the same indicator is more than five times higher, especially in the case of large firms, where the differences are even higher. Beside Poland, this type of training is of particular importance in UK firms.

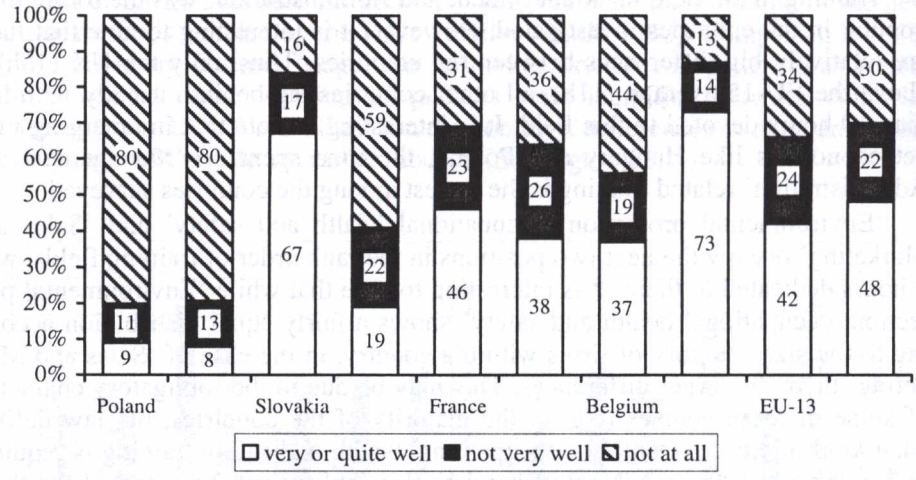
Training in the field of 'Management and Administration' was the fourth most popular in the countries investigated. However, it is interesting to note that there are relatively big differences between the countries. Thus, only the UK (15h) is above the EU-15 average (11h), all other countries lag behind, usually with less than 10 hours devoted to this field. It is interesting to note that in emerging market economies like Hungary and Poland, the time spent on 'Management and Administration' related training is the lowest among the countries surveyed.

'Environmental protection, occupational health and safety' and 'Sales and Marketing' occupy the next two positions in the rank order of training fields, with 9 hours dedicated to them. It is interesting to note that while 'Environmental protection, occupational health and safety' shows a fairly equal distribution according to the size category of firms within a country, in the case of 'Sales and Marketing' there are larger differences. This may be due to the 'obligatory character' of some of these courses (e.g. in the majority of the countries, the law defines what kind of environmental or occupational health and safety training is required in a given type of work). Notwithstanding this 'obligatory character' of the these types of training, we identified a significant degree of difference in the awareness of environment protection and occupational health and safety, which is well reflected by the time devoted to them: British entrepreneurs/owners spend far more time on environment protection and occupational health and safety related training courses than their Polish counterparts. In addition, the importance of 'Sales and Marketing' training varies greatly from country to country and according to the size category of firms. For example, in the UK, Hungary and Poland this kind of training is relatively popular among small companies, while it less important among medium-sized and large firms. On the contrary, in France, large enterprises spend more time on it than medium-sized and small firms.

Time spent on 'Accounting and finance' related training – interestingly enough – is the highest in Hungary, due to the complicated and unstable character of financial rules. If we compare this type of training only within the category of small firms – which is the core topic of our investigation, again, Hungarian firms spend most time on this issue, surprisingly followed by Germany and Poland.

It is widely accepted in the community of experts studying and evaluating the roles and new opportunities of SMEs in the fast growing global knowledge economy, that beside 'computer sciences/computer use' knowledge – which is ranked number one among the training fields measured by time spent on CVT courses – time spent on 'foreign language' related learning is located at the bottom-end of the ranking. The time spent on language-related CVT courses indicates a rather similar pattern: all countries (with the exception of British firms) are aware of the

importance of language skills. They spend more time – especially Spanish firms – than the EU-15 average on this kind of training. In addition to the time spent on language training, it is worth briefly reviewing the English-language reading ability of the whole population.



Note: English speaking countries (Ireland, Malta and the UK) are excluded.

Source: European Foundation for the Improvement of Living and Working Conditions 2004:29.

Figure 11.2. English reading ability in the Leonardo countries (question: How well do you read English? – percentage of the population)

The Figure 11.2 presents details on the English reading ability of the population of the countries involved in the Leonardo project. A sharp difference between the nine NMS and the EU-13 is clearly demonstrated. Among the NMS countries a higher proportion of the population who can read English was found in Slovakia than in Hungary. Despite the significant gap in the English reading ability of the EU-13 versus NMS-9, we must note that the gap in the ability to read English is wider among older people: differences in the 50–64 age group were up to three or four times (10% vs. 38% of the population speaks very well or quite well) whereas for the 18–24 age group the difference was less than double (32% vs. 63%).

Comparing the practices of enterprises providing internal and external CVT courses by size category of firm, size visibly matters more in the case of internal CVT courses. For example, firms employing 250 or more staff make more intensive use of their own training resources. Alongside similar patterns identified in the relative differences (by size category) in the provision of internal CVT courses, we found significant variations in the share of companies organising in-house training courses. The proportion of this type of internal CVT course is above both the EU-15 and EU-25 average in Germany and the UK. Hungary,

Spain and Poland represent the bottom-end of countries organising internal courses, whilst France and Belgium are located between these two groups of countries. See in detail in Table 11.2

Table 11.2

Percentage of all enterprises providing Internal CVT courses, by size class

Country	Total	Size of enterprise (number of persons employed)			
		0–9	10–49	50–249	250 or more
EU-25	55	45	49	66	85
EU-15	56	46	50	68	86
Belgium	42	33	38	51	73
France	49	38	42	56	87
Germany	59	48	53	74	85
Spain	33	19	25	47	74
Hungary	36	27	30	39	71
Poland	36	33	33	36	63
Slovakia	*n.d.*	*n.d.*	*n.d.*	*n.d.*	*n.d.*
UK	68	57	62	80	89

Source: Continuing Vocational Training Survey (CVTS), data set available on the EUROSTAT portal.

The data presented in the next table suggests that there are no significant differences in the share of firms organising external CVT courses, because all enterprises rely heavily on external channels of knowledge transfer. See in detail in the Table 11.3.

Table 11.3

Percentage of all enterprises providing External CVT courses, by size class

Country	Total	Size of enterprise (number of persons employed)			
		0–9	10–49	50–249	250 or more
EU-25	91	89	90	94	96
EU-15	91	89	90	93	96
Belgium	93	95	93	93	93
France	95	94	94	97	99
Germany	91	90	90	92	98
Spain	92	93	92	91	90
Hungary	88	88	87	89	89
Poland	92	89	91	95	93
Slovakia	*n.d.*	*n.d.*	*n.d.*	*n.d.*	*n.d.*
UK	89	84	87	93	95

Source: Continuing Vocational Training Survey (CVTS), data set available on the EUROSTAT portal.

Evaluating the importance of training providers supplying external CVT courses, the following two patterns can be identified. According to the results of the CVTS (1999) at both EU-25 and EU-15 levels the rank order of training providers was similar. However, a country level comparison of the rank order of different types of training providers revealed significant differences, with the exception of private training organisations, which occupied the first position in each country. The training provider institutions are listed below in rank order:

1. Private training organisations
2. Specialised training institutions
3. Equipment suppliers
4. Public schools and colleges
5. Chambers of Commerce, sector bodies and employers' organisations
6. Parent/associate companies
7. Universities and other higher education institutions
8. Trade unions

The following quotations from the company case studies illustrate well the importance of the role different training providers play in supplying the necessary knowledge:

Belgian construction firm, 100 employees

The sector has a lot of partnerships with educational institutes. There are a lot of work placements, fully integrated in the curricula and of sufficient duration. The professional profiles define the final terms of the curriculum. (...) The FVB, The Flemish Fund for Vocational Training in the building and construction industry is also contributing to the promotion of job opportunities in schools. Since 1996 they have been cooperating intensively with educational institutes. More than 200 schools, i.e. 380 building and construction departments with a total of 12,000 third grade students, have a partnership with the FVB. Frequently the integration of work placements, the fine-tuning of curricula to the needs of the professional world, infrastructure, logistics and course materials are jointly evaluated. Training for trainers is offered as well as seminars on safety issues. The annual budget of the FVB for these partnerships is circa 2 million euro.

Belgian travel agency, 2 employees

"First of all, I contact schools because it is a plus to recruit somebody with a basic knowledge of all tourism aspects. Apart from that, I always pass the advertisement to the VDAB (Flemish Service for Employment and Vocational Training) and specific federations. They have a magazine and a website. Working this way, you have more possibilities to find someone with experience." (owner)

Polish funeral company, 64 employees

"I'm furious, because the workers don't pay attention during courses and make stupid mistakes later on. I paid a lot of attention to such courses until the year 2000. After that I was of an opinion that the workers fulfil their duties properly and that there is no point in over–training them. (...) I got discouraged because in one instance, I paid 50% of the costs for one promising employee throughout three years, and, on finishing his studies, he went over to our competitor." (owner)

Hungarian travel agency, 6 employees

"As regards tourism education in Hungary, the National Tourism Development Strategy notes 'it is a general contradiction that there are fresh graduates coming from the various schools which (also) teach tourism, but the agencies would rather have a labour force with particularly specialized training and practical knowledge.' This is reinforced by the regional leader of Turizmus Rt., too, according to whom, 'at the college level of training, many subjects provide knowledge for which there is no, or hardly any, need in practice. [...] There is no course book on travel agency management in Hungary either.' "(managing director)

Spanish ICT company, 30 employees

"We are continually training our employees. The technical personnel receive continuous training because the products are constantly evolving; more than once a year they receive some training. They have a product that is very extensive and that they have to know very well; they work on it, take courses, receive documentation, receive a large amount of information; just like the salespeople, they have a meeting at least once a year where they hear about all of the new developments, the new products being incorporated into the company, new functions...all paid for by the company." (general manager.

Spanish travel agency, 3 employees

"When you work at a travel agency, it is necessary to take additional training courses, but in the case of wholesalers, no. If I were an IATA travel agency, yes, because when you get your degree, you don't come out ready to enter data for the first time in a screen, to read the initials for each city, and look up flights, then, in that case, it is necessary. IATA also gives courses so that your employees can learn to handle its tools. In my case, no. It is much more comfortable not being in IATA. The minute I become part of IATA, I'll have to go to a course, and we'll all have to go, and whoever else has to go. As soon as I start selling airline tickets, yes, because they change AMADEUS, or because it is necessary because of whatever may come up, but now, in my current situation, it isn't necessary". (owner/employer)

After systematically reviewing the key actors in supplying knowledge, we need to measure the efficiency of knowledge transfer. We are aware that there is no generally accepted single indicator to assess the efficiency of training. In European practice, the following methods of evaluation were used to assess the effect of Continuing Vocational training courses: measuring the satisfaction level of participants, carrying out tests to verify new skills, formal validation or certification of skills acquired, measuring if new skills are applied at work, and using indicators of any improvements in production.

Reviewing the various methods used to evaluate the effects of CVT courses, the results can be compared in various dimensions. Firstly, we compared the results on an EU-level and country level. Secondly, we tried to identify the impact of the size-category of firms in relation to the performance measurement of CVT courses. For the first dimension, we found the following rank order:

1. Level of satisfaction of participants
2. Measuring if new skills are applied at work
3. Formal validation or certification of skills acquired
4. Carrying out tests to verify new skills
5. Using indicators of any improvements in production

In relation to the EU-level comparison, we must point out that there are no noticeable differences in the rank order between EU-15 and EU-25 countries. In addition, we should mention that 'using indicators of any improvements in production' is the most rarely used method of course evaluation. Comparing the country-level differences, the following patterns were identified: in the UK all methods of evaluation, with the exception of 'using indicators of any improvements in production', were used at a higher rate than the EU average (both EU-15 and EU-25). In the case of Poland, 'formal validation or certification of skills required' and 'measuring if new skills are applied at work' are more frequently applied than the EU average. In France, the following two indicators were used more frequently than the EU average: 'Measuring satisfaction level of participants' and 'Carrying out tests to verify new skills'. Finally, it should be pointed out that in the Hungarian practice, 'measuring if new skills are applied at work' and in Spain, 'formal validation or certification of skills required' were used at a higher rate than the EU average. To diminish the risks of interpretation and evaluation of formal training practices in SMEs, it is necessary to draw attention to the particular importance of non-formal training practices such as 'on-the-job training' (OJT) 'learning from others' or 'learning by doing and using'. In this respect we share the following view concerning learning practice in the small enterprises: "most of the learning is based on 'learning by doing'. Such training practices result in recognition by standard measures (i.e. education level or diplomas). Traditional literature on SMEs training practices has very often ignored these non-formal methods such as learning by doing, visits to other enterprises, dialogue with customers and suppliers, personal development meetings, work rotation, staff meetings, etc. which are very important for SMEs" (Ylinenpaa 1997).

This situation indicates the underdevelopment of systematic and formal training practice in SMEs. However, the non-formal practice of 'tacit', 'non-coded' knowledge/competence development and transfer are present in these firms; but the assessment of their impact requires qualitative research tools, e.g. case studies. Beside the difficulties of measuring and surveying these quantitative research methods of knowledge development practice in SMEs, we must point out another shortcoming related to the problem of knowledge spillovers in the SME sector. Unlike in the large sized firm sector, the SME literature identifying channels/mechanisms for transmitting knowledge spillovers is sparse and remains underdeveloped. Despite these inconsistencies and the lack of empirical evidence, experience acquired from the company case studies – presented below – could serve as an important resource to enrich present knowledge and also as an important source of inspiration for future research projects.

Evaluating the results of the company case studies concerning training practices, we intend to review the following sources and forms of knowledge generation. Before presenting various features of skill use practices, it is necessary to stress the important impact of the sector in which firms investigated operate (e.g. manufacturing, services, tourism and ICT). For example, according to the company case studies the firms operating in the tourism and manufacturing sector are representing the so-called "low-skill equilibrium" in comparison with ICT-related

firms which support more the training of their employees. These latter ones represent the so-called "high-skill equilibrium" model.

The importance of various aspects of On-the-job-training was mentioned during the interviews both by owners/managers and other stakeholders. The following quotations clearly illustrate the various forms of On-the-job-training (OJT).

Hungarian ICT company, 62 empolyees

Learning by doing

'Nowadays we are looking for PHP and HTML editors, and it is not really knowledge you can learn at school. It depends on how much time you spend on it at home.' Acquiring knowledge usually means self-education: on-the-job training or 'learning by doing'. One of the company's important problems is the lack of an internal training system – there is no resource for that. *"Fortunately we do many types of tasks that require us to update all the time. This is true mainly on the higher professional levels, but we do not have time to train the others on the lower levels. We do not have any resources for that and we don't even get any. The situation has changed recently; for the implementation of a new product special knowledge is needed which we have to take forward. But we can only train them with difficulty, they are partly alone.' (senior developer).*

Learning by using

In this sector you cannot get the necessary training through the formal education system. *"What we do one can't learn at the secondary schools and colleges. What we know it took one hard year to learn at work. If the material you possibly can know is 100%, than we know 80%. We could improve this, for example with foreign ad server technology, but really we are the only ones who could do the training both for the clients and for the high school students." (digital media manager).*

Learning by interacting

Business information exchange can happen only in close micro communities. *"Everybody knows each other; the informal relationships are very important. We discuss everything that happens in the market, and there are a few people with whom we talk about personal things. In some sectors, like in the on-line advertisement sector, it is much closer. In that sector there are very young people, and also at media and sales, they go to pubs every week together.' You can get the most valuable information through these channels. If you just write letters and read the news, I don't even know how somebody can decode the message to get relevant information, they are really not up-to-date. The newsletters are coming, full of information, and I do not understand what it is about. You have to see behind them to understand." (digital media manager).*

Spanish food company, 165 employees on average, but 320 in the summer season

"We give all our workers prior training before starting work. One kind is continuous on-the-job training – this initial hour or half hour to tell them how they should do things, and that first day when you're on top of them, which is the responsibility of an experienced person. Then, before the season starts and so, before the worker is incorporated, we explain to him how the cooperative works, health standards, training for the citrus fruit food handler's licence, work risk prevention... a load of preliminary talks that have to be given before the worker is incorporated. And then, through intermediary authorities, there is training on selection tasks. We run specialised courses on oranges, environmental health, sorting, harvesting for the pickers. For members and workers, courses on pruning, grafting... there are always courses. We have the European Social Fund that provides free training. More than for any other reason, primarily because we have a training capacity and because it doesn't cost us anything. It wouldn't be wise not to use it. And also, because having the AENOR stamp implies that we also have a training plan." (manager).

Discussing the interviews' experiences in relation to OJT, we should draw attention to the shifting priority of different types of knowledge. We would like emphasize the increasing role of social and cultural skills. The role of the communicational ability, appearance, or aesthetic and emotional qualities of employees, their client-orientation, foreign language knowledge, etc is increasing in SMEs' everyday practice in comparison to 'technical-professional' skills. The quotations in the following box clearly illustrate the elements of social-cultural skills discussed above:

Belgian construction firm, 100 employees

"At this moment there is training on three Fridays in a row. Six foremen (painters, carpenters and drivers) follow a training course in motivation, communication and leadership. This is a way of motivating people and it is also good for the company as they need to motivate their workers." (managing director/owner).

Belgian travel agency, 2 employees

During interviews, I really have to find out whether they have a commercial feeling because in the end, we are a shop that has to sell. Also the appearance of the person is important. It must be pleasant for the customer to enter the shop, to be confronted with employees who are friendly and open-minded, who can think logically when facing problems. You can really solve a lot, just by being friendly and by thinking logically. Moreover, there must be an interest in tourism. Working in the tourism industry must really be a passion. Lastly, there should be a minimum knowledge of foreign languages and they must have travelled in the past.

Hungarian travel agency, 6 employees

In the travel agency office, the employees come into personal contact with the clients; to make a successful deal, they also need what are called emotional skills and competences (communication, empathy), which they can only master during work, which further diminishes the training activity of the company. *"At school, one can get the essentials. Among the graduates, only those whose personal features fit the requirements of this client-oriented job will be successful; one can only stay permanently on the market if one can utilize the knowledge gained in practice." (managing direktor).*

It is not our intention to summarise the various characteristics of skills generation and use in the SME sector in general and in the companies investigated in the Leonardo project, but we would like to draw attention to the following two patterns. Firstly, comparing the case study experiences collected from companies operating in different sectors, it is interesting to note that the companies operating in the Knowledge Economy related sectors (e.g. ICT) raised various aspects of knowledge use and development more frequently. Surprisingly, these firms' representatives stressed – during the interviews – not only the need for continuous development in the field of technical and professional skills[51], but also the grow-

[51] "This can be illustrated by the reference in a recent report from the Danish Ministry for Education to a German source that claims that half of the skills a computer engineer has obtained during

ing importance of social-cultural skills. Beside the important sectoral dimension affecting the skill needs and skill use practices, we would like to raise the important question of the use and lack of new technologies. Evaluating the latest CVT survey results, the EU and Leonardo country level comparison provides the following picture.

At the European level (both EU-15 and EU-25), firms employing 'new technologies' focus more on Continuing Vocational training than firms without 'new technologies'. The relation between time spent on CVT courses (per employees) and use of new technologies is the strongest in Belgium, Spain, Hungary and Poland, followed by Germany and the UK, while the weakest relation is in France. Evaluating this relation by size category of firms, we may say that size matters most in the Belgian, French and Spanish cases. In Hungary, Poland and Germany the impact of firm size on the relation between the use of new technologies and the time spent on CVT courses prevails to a lesser extent, while in the UK there is an inverse size effect (i.e. as the size category of firms increases, the share of firms using new technologies decreases). See in detail, the Table 11.4.

Table 11.4

Hours in CVT courses per employee in enterprises with and without 'new technologies', by size class

Country	Total		Size of enterprise (number of persons employed)					
			10–49		50–249		250 or more	
	Yes*	No**	Yes	No	Yes	No	Yes	No
EU-25	13	10	11	6	12	8	14	14
EU-15	13	10	11	6	12	9	14	14
Belgium	17	8	12	5	15	11	20	12
France	18	16	10	7	14	10	21	24
Germany	10	6	8	4	10	6	10	8
Spain	13	6	8	3	10	5	18	11
Hungary	7	3	6	2	6	2	8	5
Poland	6	3	5	2	5	2	8	5
Slovakia	*n.d.*	*n.d.*	*n.d.*	*n.d.*	*n.d.*	*n.d.*	*n.d.*	*n.d.*
UK	14	12	16	17	15	14	14	9

* Enterprises introducing 'new technologies'.
** Enterprises without 'new technologies'.

Source: Continuing Vocational Training Survey (CVTS), data set available on the EUROSTAT portal.

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his training will have become obsolete one year after the exam has been passed, while the halving period for all educated wage earners is estimated to be eight years." (Nielsen, Lundvall 2003:1)

12. Innovation

The key lesson to be learned from reviewing relations between the level of technology used by the SMEs and the efforts devoted to Continuing Vocational Training Courses is that firms using new technologies are more likely to spend more time on it. This phenomenon draws attention to the importance of technological change and its core dimensions as an innovation process in the SME sector. The following section gives details on various features of innovation activities by countries and by size class of business organisations.

Reviewing the position of countries in relation to innovation activities, the following rank order can be identified:

1. Germany (60.9%)
2. Belgium (50.1%)
3. France (40.8%)
4. UK (35.8%)
5. Spain (32.7%)
6. Hungary (23.3%)
7. Slovakia (19.5%)
8. Poland (17.3%)

This indicator of innovation activities has an aggregated nature, that is it covers the categories of both product and process innovation. Before evaluating these two types of innovation, it is worth noting that the rate of innovation activities is strongly related to the size category of firms, in other words innovation activities increase with the increase in size. These European findings are reinforced by the various surveys carried out on the direct measure of innovative output in the USA. For instance, the US 'Small Business Administration's Innovation Database' showed that the most innovative US enterprises are large corporations (Acs-Audretsch 1990).

Comparing the distribution of product versus process innovations, in all countries – with the exception of Spain – product innovations represent the highest share. Looking at the impact of the size category of firms investigated in the Leonardo project, this variable has a visible influence in a minority of countries; France, Spain and the UK. In the remaining countries no clear relationship between size and the presence of product and process innovations was identified. In the case of Belgium, the rate of product innovation was higher than the average in the medium-sized category of firms, similar to Hungary, Slovakia and Germany. Looking at the distribution of process innovation, the following differences were registered. In the Belgian case there is no visible difference according to the size category of firms, in the German practice medium-sized firms play a dominant role, while in Hungary and Slovakia large firms are among the leaders of process innovation.

Table 12.1

Innovation activities, product and process innovation of firms operating in the Leonardo countries

Country	Firm Size (N° of employees)	Share of enterprises with...		
		innovation activities	product innovation only	process innovation only
Belgium	10–49	45.0	18.6	9.8
	50–249	64.2	22.0	9.1
	250 or more	76.5	16.5	10.4
	TOTAL	50.1	19.1	9.7
France	10–49	31.4	11.4	6.1
	50–249	52.3	18.8	8.9
	250 or more	76.0	22.9	7.8
	TOTAL	40.8	14.4	7.0
Germany	10–49	55.0	19.1	10.8
	50–249	71.6	22.3	14.5
	250 or more	86.4	17.7	8.1
	TOTAL	60.9	19.7	11.4
Spain	10–49	29.5	9.5	9.4
	50–249	44.6	10.6	12.9
	250 or more	67.5	14.2	15.1
	TOTAL	32.6	9.8	10.0
Hungary	10–49	20.9	7.5	4.2
	50–249	28.0	12.8	3.5
	250 or more	44.4	9.7	8.1
	TOTAL	23.3	8.5	4.2
Poland	10–49	12.9	*n.d.*	*n.d.*
	50–249	24.6	*n.d.*	*n.d.*
	250 or more	53.4	*n.d.*	*n.d.*
	TOTAL	17.3	*n.d.*	*n.d.*
Slovakia	10–49	15.1	8.8	2.1
	50–249	24.4	13.9	1.6
	250 or more	46.8	19.4	3.1
	TOTAL	19.5	10.7	2.0
UK	10–49	31.6	10.8	6.6
	50–249	46.7	16.2	10.0
	250 or more	57.1	16.8	12.9
	TOTAL	35.8	12.2	7.6

Source: Data set available on the EUROSTAT portal.

The relative weakness of process innovation in comparison with product innovation draws attention to the under-rated importance of non-technical innovation. In addition, it is worth presenting briefly the results of the latest European competitiveness report. One of the most interesting outcomes of this report indi-

cates that the advance of the US over Europe is not only in the field of technological innovation but especially in the advance of non-technical innovations. The following figures illustrate a composite indicator of non-technical innovations. In other words, these figures demonstrate the share of SMEs introducing 'advance management techniques', 'new or significantly improved organisational structure' and significant changes in the aesthetic appearance of at least one product. See details in Figures 12.1.

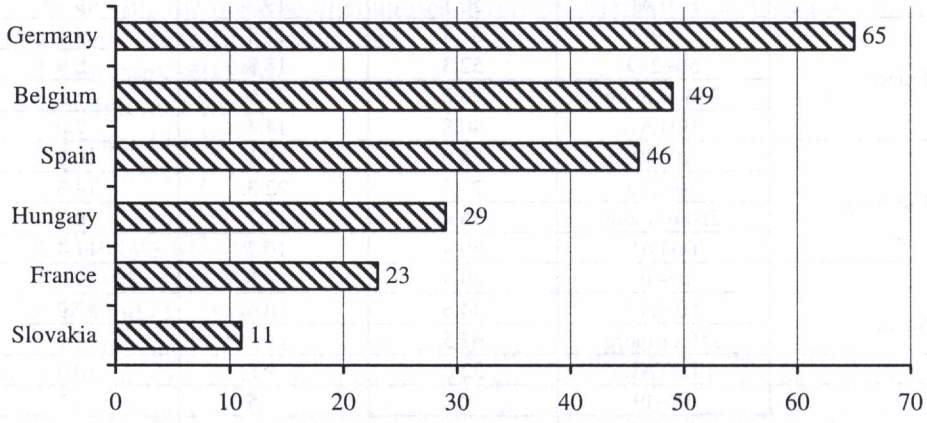

Figure 12.1. Share of enterprises with non-technical change

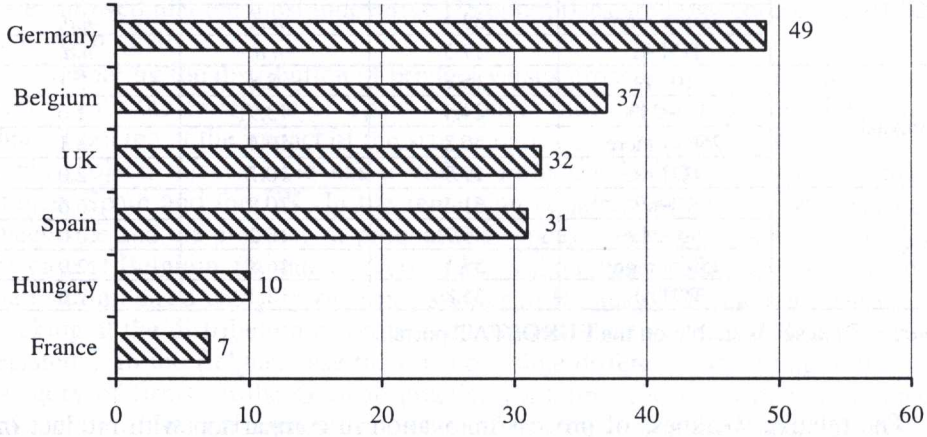

Figure 12.2. Share of enterprises implementing changed organisational structures

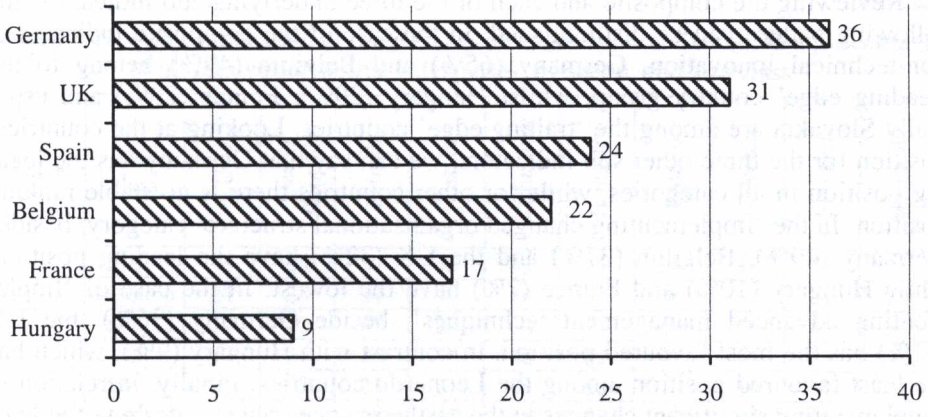

Figure 12.3. Share of enterprises implementing advanced management techniques

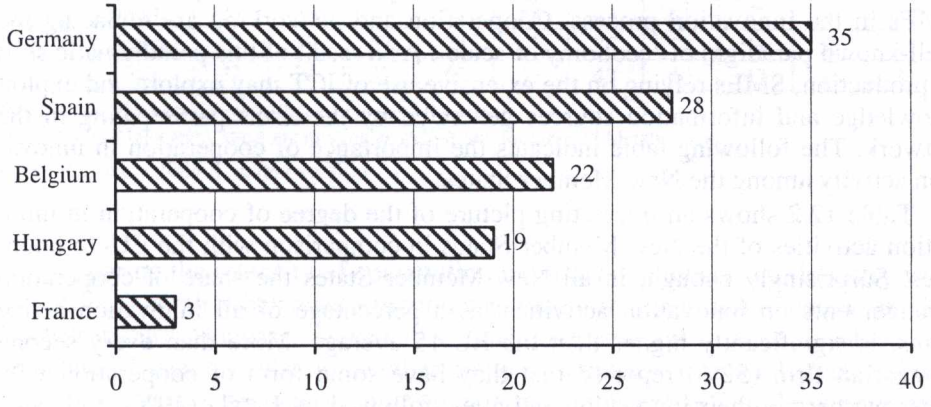

Figure 12.4. Share of enterprises implementing significant changes in æsthetic appearance

Source for Figures 12.1–12.4: European Innovation Scoreboard 2004:14.

Figure 12.1–12.4 shows the composite indicator of non-technical change, and the three other sub-indicators, namely 1., the percentage implementing changed organisational structure, 2., the percentage implementing advanced management techniques, and 3., the percentage implementing significant changes in aesthetic appearance or design of at least one product.[52]

[52] Evaluating the comparison of various countries using these indicators – which is the only one currently available on the subject of non-technical innovation – we have to point out that this data can only be interpreted with caution. "For some countries the results for organisational change are

Reviewing the composite and each of the three underlying sub-indicators, the following pattern can be distinguished. In the case of the composite indicator of non-technical innovation, Germany (65%) and Belgium (49%) belong to the 'leading edge' country group, whilst Hungary (29%), France (23%) and especially Slovakia are among the 'trailing edge' countries. Looking at the countries' position for the three other sub-indicators, we can say that Germany has the leading position in all categories, while for other countries there is no stable ranking position. In the 'Implementing changed organisational structure' category, besides Germany (49%), Belgium (37%) and the UK (32%) have the leading position, while Hungary (10%) and France (7%) have the lowest. In the case of 'Implementing advanced management techniques', beside Germany (36%), the UK (31%) has the most favoured position, in contrast with Hungary (9%), which has the least favoured position among the Leonardo countries. Finally, in relation to 'Implementing significant changes in the aesthetic appearance or design of at least one product', beside Germany (35%), Spain (28%) is in the leading group, while Hungary (19%) and France (3%) have the worst position.

Recent studies emphasize the growing importance of cooperation between SMEs in the innovation process. Cooperation and networking are replacing the well-known paradigm of 'economy of scale'. As a result of this paradigmatic shift in production, SMEs relying on the extensive use of ICT may explore and exploit knowledge and information sources generated by the firms participating in the network. The following table indicates the importance of cooperation in innovation activity among the New Member States.

Table 12.2 shows an interesting picture of the degree of cooperation in innovation activities of the New Member States in comparison with the EU-15 countries. Surprisingly enough, in all New Member States the share of cooperation arrangements on innovation activities, as a percentage of all innovation active firms, is significantly higher than the EU-15 average. More than every second Hungarian firm (52%) reported that they have some form of cooperation with other partners in their innovation activities, followed by Latvia (49%), Lithuania (48%), Slovenia (46%), Estonia (35%), Poland (32%), Slovakia and the Czech Republic (24%).

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very high and, for most countries, the occurrence of organisational change seems to be significantly higher than the implementation rate of advanced management methods. This raises doubts about the common understanding of the underlying concepts and indicates that the results must be interpreted cautiously." (European Innovation Scoreboard 2004:16.) In addition, we have to note that some of the countries involved in the Leonardo project are missing from the dataset. For example, in the case of the composite indicator of non-technical change, UK and Polish data are missing. In the case of implementing changed organisation structures and of implementing advanced management techniques, data for Poland and Slovakia are missing, and finally, for implementing significant change in aesthetic appearance, British and Slovakian data are missing.

Table 12.2

Enterprises with cooperation arrangements on innovation activities, as a percentage of all innovation active enterprises, by sector and size class

NACE	Size-class	EU-15	Czech Republic	Estonia	Latvia	Lithuania	Hungary	Poland	Slovenia	Slovakia	Romania
Total	Small	14	20	31	45	49	48	26	36	12	17
	Medium	24	26	39	49	44	56	36	49	31	22
	Large	57	40	67	68	60	73	49	55	46	39
	All	19	24	35	49	48	52	32	46	24	22
Industry	Small	11	22	27	31	38	52	19	36	17	12
	Medium	22	23	28	48	38	58	27	47	29	18
	Large	61	40	68	66	59	71	48	55	45	38
	All	17	25	34	41	41	55	28	47	28	19
Services	Small	18	18	35	65	56	40	33	37	8	27
	Medium	29	36	41	52	58	43	61	62	37	36
	Large	47	39	67	74	67	86	52	54	58	47
	All	22	22	37	62	57	42	40	43	16	31

Note: Data for Hungary do not include Mining and Quarrying.
Note: Data for Malta and Cyprus are missing as well as that for the 'Old Member States'.

Source: Crowley 2004:4, edited version.

Comparing the intensity of cooperation in innovation by sectors (industry versus services), a fairly balanced situation was found. In one group of countries (the Czech Republic, Hungary, Slovenia, Slovakia) cooperation is more developed in the industrial sector, whilst in the other group of countries (Estonia, Latvia, Lithuania and Poland) cooperation in innovation is more concentrated in the service sector. As far as the size category effect is concerned, we can say that, with the clear exception of Hungary, intensity of cooperation is increasing with the growing size of firms (the larger the firm the higher is the intensity of cooperation).

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